

Zenonas Norkus

On Baltic Slovenia and Adriatic Lithuania

A QUALITATIVE COMPARATIVE ANALYSIS
OF PATTERNS IN POST-COMMUNIST TRANSFORMATION



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and Adriatic Lithuania

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Contents

List of Figures	7
List of Tables	8
Introduction	11
PART 1. PATTERNS OF POST-COMMUNIST TRANSFORMATION	27
CHAPTER 1. The Concept of Post-Communist Transformation	31
1.1. What Was Communism?	31
1.2. The Concept of the Exit from Communism	42
1.3. Conceptual Foundations of the Typology of Paths of Post-Communist Transformation	49
CHAPTER 2. Orientations and Modes of Post-Communist Transformation	66
2.1. Orientations of the Exit from Communism: Concepts and Cases	66
2.2. Economic Modes of the Exit from Communism: Concepts and Cases	77
2.3. Political Modes of the Exit from Communism: Concepts and Cases	88
CHAPTER 3. Economic and Political Outcomes of Post-Communist Transformation	95
3.1. Change and Diversity of Capitalism in the Comparative Economic Sociology and Political Economy	95
3.2. Rational Entrepreneurial Capitalism in the Post-Communist World	107
3.3. Political Oligarchic and State Capitalism in the Post-Communist World	119
3.4. Democracy, Authoritarianism, and Their Adjectives: Outcomes of Political Transformation	133
CHAPTER 4. Pathways and Patterns of Post-Communist Transformation	140
4.1. Comparative Qualitative Analysis as a Method of Theory Building	140
4.2. From Empirically Observed to Counterfactual Ways of Post-Communist Transformation	151
4.3. All Ways of Post-Communist Transformation	173

PART II. CAPITALISM AND DEMOCRACY IN POST-COMMUNIST LITHUANIA: DEEPENING COMPARATIVE CONTEXTS	199
CHAPTER 5. Why Lithuania “Lagged” Behind Estonia?	208
5.1. A North-South Gap in the Post-Communist Transformation of the Baltic States as a Problem of Explanation	208
5.2. An Economic Explanation of Lithuania’s Falling Back	213
5.3. A Political-Economic Explanation: Does the Blame Lay on Lithuanian Ex-Communists?	217
5.4. A Culturalist Explanation: “Weber’s Thesis” for the Baltic Countries?	222
5.5. Latvia and Other Difficulties of the Culturalist Explanation of the Estonia’s Success: Towards Resolution	232
CHAPTER 6. Between Estonia and Slovenia: Post-Communist Capitalism in Lithuania and Its Prospects	242
6.1. Baltic States and Slovenia as Extremities of Post-Communist Rational Entrepreneurial Capitalism	242
6.2. Baltic Capitalism(s) – New Liberal Market Economies Between the Core and Periphery?	253
6.3. Could Lithuania Have Become the “Baltic Slovenia”?	269
6.4. How Slovenia Could Have Become the “Adriatic Lithuania”	288
CHAPTER 7. The Presidential Impeachment as the Stress Test of the Liberal Democracy in Lithuania	296
7.1. Populism and Perils of Semi-Presidentialism in the Baltics and Central Europe	297
7.2. Paksasgate Story: Staging, Casting, and Plots about Plots	306
7.3. Did the Successful Impeachment of Rolandas Paksas Save Liberal Democracy in Lithuania from Breakdown?	318
7.4. Was it All Sound and Fury, Signifying Nothing, or Why Impeachment Did Not Enhance the Quality of Democracy in Lithuania?	324
Concluding Clarifications and Invitations	335
References	339
Name Index	361
Subject Index	368

List of Figures

0.1. The location of the first academic research institute in Soviet Studies in the world (<i>Instytut Naukowo-Badawczy Europy Wschodniej</i> , 1930–1939)	12
3.1. Economic development and overall index of coordination	110
3.2. State capture index in 1999	123
3.3. Post-communist capitalism typology	124
4.1. Dimensions of lawhood	194
5.1. GDP of Estonia in 1989–2010	211
5.2. GDP of Lithuania in 1989–2010	212
5.3. Initial conditions of the post-communist economic modernization	215
5.4. GDP of Latvia in 1989–2010	221
6.1. GDP of Slovenia in 1989–2010	243
6.2. Stock market capitalization to GDP ratio in 2004–2009	254
6.3. Shares traded by GDP in 2004–2009	255
6.4. Shares traded by stock-market capitalization in 2004–2009	255
6.5. Domestic credit to private sector by GDP	257
6.6. Contribution of total factor productivity (TFP), employment, and capital increases to average GDP growth, 1995–2001	259
6.7. Shifts of EU-27 countries in the factor space of the added value sector structure in 2000–2005	264
6.8. European regional innovation performance groups in EU states	292
7.1. The changes in the overall satisfaction with democracy in Lithuania 1991–2007	326

List of Tables

1.1. Logical development possibilities for communist regime	45
1.2. The classification of the pathways of post-communist transformation during first decade	57
3.1. Ideal types of technologically advanced 4th and 5th Kondratieff waves rational entrepreneurial capitalism	103
3.2. Central European dependent market economies (DME) in comparison with coordinated market economy (CME) and liberal market economy (LME)	116
3.3. Real GDP annual growth rate averages by country groups in the first post-communist decade	126
3.4. Real GDP annual growth rate averages by country groups in the second post-communist decade	130
4.1. Multi-value QCA data table for pathways of post-communist transformations	142
4.2. The table of configurations for the analysis of the liberal democratic capitalism emergence pathways	145
4.3. Unobserved cases in the assumed scripts of the preliminary pattern for successful rapid transition to liberal democratic capitalism	152
4.4. Unobserved cases in the assumed scripts of the alternative preliminary pattern for successful rapid transition to liberal democratic capitalism	153
4.5. Unobserved cases in the assumed scripts of the preliminary pattern for the failures of the rapid transition to liberal democratic capitalism	155
4.6. Unobserved cases in the assumed scripts of the alternative preliminary pattern for the failures of the rapid transition to liberal democratic capitalism	156
4.7. Unobserved cases in the assumed scripts of the preliminary pattern for successful rapid transition to rational entrepreneurial capitalism	176
4.8. Unobserved cases in the assumed scripts of the preliminary pattern for unsuccessful rapid transition to rational entrepreneurial capitalism	177

4.9. Residual unobserved cases not considered in the search for minimal patterns in pathways to liberal democratic capitalism and rational entrepreneurial capitalism	180
4.10. Final pattern for the rapid success of the building of liberal democratic capitalism (full version)	183
4.11. Final pattern for the failure in the rapid building of liberal democratic capitalism (full version)	183
4.12. Final pattern for the rapid success of the building of rational entrepreneurial capitalism (full version)	184
4.13. Final pattern for the failure in the rapid building of rational entrepreneurial capitalism (full version)	184
4.14. Final pattern for the emergence of political oligarchic capitalism (full version)	185
4.15. Final pattern for the non-emergence of political oligarchic capitalism (full version)	185
4.16. Final pattern for the emergence of state capitalism (full version)	186
4.17. Final pattern for the non-emergence of state capitalism (full version)	186
4.18. Final pattern for the rapid success of liberal democracy (full version)	187
4.19. Final pattern for the failure of liberal democracy during the first decade of post-communist transformation (full version)	187
5.1. The growth in real GDP in Central and Eastern Europe, Baltic States and Commonwealth of Independent States (CIS) during the first decade of post-communist transition	210
5.2. The differences in basic value orientations between Lithuanians, Estonians, and Latvians in 1990	224
6.1. Collective bargaining coverage and trade union membership in 2009	247

Introduction

The author of this book lives and works in the Lithuanian capital Vilnius. From 1930 to 1939 in this then Polish city (Wilno) there worked the Research Institute of Eastern Europe (*Instytut Naukowo-Badawczy Europy Wschodniej*), which systematically investigated the first Communist state behind the border only some 150 km to the East. The Institute published a book series *Biblioteka Instytutu Naukowo-Badawczego Europy Wschodniej w Wilnie* (Library of the Research Institute of Eastern Europe in Vilnius), a yearbook *Rocznik Instytutu Naukowo-Badawczego Europy Wschodniej* (Yearbook of the Research Institute of Eastern Europe) and a bulletin *Balticoslavica* (see Kornat 2003). “Simplifying matters, and admittedly being partisan, one can say that Sovietology was born in interwar Poland, not in the United States during the Cold War” (Brzechczyn 2008: 828).

The Institute was hosted in the building of the Wróblewski library on the junction of the Arsenalna (now Tadeušo Vrublevskio) and Zygmuntowska (now Žygimantų) streets. Future Nobel Prize winner Czesław Miłosz, then student at the Stefan Batory University in Wilno (Vilnius), had a close friend employed at the Institute and was a frequent visitor there. One can take a glimpse of the life within the walls of the house on the shore of the river Neris (Wilia) from his memoirs (Miłosz 1991: 11, 31–33). Now the building hosts The Wróblewski Library of Lithuanian Academy of Sciences, which has inherited the collections of the first research institute in Soviet studies in the world. This was the place where parts of the present book were written. “In my beginning is my end” (T. S. Eliot).

That’s why this present book may be dedicated to the 80th anniversary of the opening of the Research Institute of Eastern Europe in Vilnius/Wilno on February 23rd, 1930. Its original Lithuanian version (Norkus 2008a) was launched in May 2008, on the eve of the twentieth anniversary of the founding of *Sąjūdis* (June 3rd, 1988), also known as the Reform Movement of Lithuania. A chain of events ensued which, in just under two years, culminated with the declaration of Lithuanian independence (March 11th, 1990), an event that signalled the beginning of



Figure 0.1. The location of the first academic research institute in Soviet Studies in the world (*Instytut Naukowo-Badawczy Europy Wschodniej*, 1930–1939), presently the building of The Wróblewski Library of Lithuanian Academy of Sciences in Vilnius. Author's picture.

the end of the Soviet Union's "internal empire". So appropriately and differently from the interwar Vilnius/Wilno school of Communism studies which focused on the making and working of the Communist system, I focus on its unmaking – post-communist transformation.

In 2008, the Lithuanian Association of Political Scientists named the book best publication of the year. It has garnered the author a prestigious Lithuanian Science Award 2009. It has been widely reviewed in Lithuania's scholarly press and well received by the country's academic community (Šabajevaitė 2008; Bielskis 2008; Valantiejus 2008; Putinaite 2009; Azguridienė 2009; Gudžinskas 2009; Jankauskas 2010; Žilyš 2010; Balkelis 2011). Simplifying matters, and admittedly being partisan once more, the author's ambition is to provide a building block for the Vilnius (Lithuanian) school of the post-communism studies which would be a worthy successor to interwar Wilno (Polish) school of Soviet studies. This is a big goal, but it was the inspiration for what the reader will find in the book.

This is a general theory of the patterns of post-communist transformation, constructed using the the method of the multi-value Comparative Qualitative Analysis (mvQCA). It is presented in the first part of the book "Patterns of post-communist transformation" (chapters 1–4). Chapter 1 presents an analysis of the concept of the exit from communism – a basic typology of the exit from communism – as well as a formulation of the project for a theory of post-communist transformation. If one posits that communism as a social system encompasses *a*) Marxist-Leninist ideology, *b*) a planned administrative economy, and *c*) a totalitarian or authoritarian political regime, one can then differentiate six modes for exiting communism, of which three are observed in real life: 1) China and Viet-

nam (retain *a* and *c* but drop *b*); 2) Most former republics of Soviet Union (retain *c* but drop *a* and *b*); and 3) Central Europe and the Baltic States (drop *a*, *b*, and *c*).

Such conceptual analysis leads only to a negative definition of the concept of post-communist transformation; despite this shortcoming it is useful for gauging how far away from communism a country has moved. If only one aspect of a country's social system is different from communism, then it hasn't gone far; if it differs in two or three aspects then it is further away. A positive definition of post-communist transformation employs the typology of economic and political systems to characterize economic and political outcomes of transformation not just by negation, but in logically positive terms. If one of the possible outcomes of post-communist transformation is understood to be the very best (rational entrepreneurial capitalism plus liberal democracy), then it is understood teleologically as transition: successful and unsuccessful transition cases can be distinguished.

Without questioning the normative priority of such an outcome, the book tries to explicate the entire spectrum of economic and political outcomes of post-communist transformation. A good theory of post-communist transformation should not only describe, but also explain the whole range of variation in the outcomes of transformation, using for this goal as few variables as possible to describe initial conditions. Because the outcomes of post-communist transformation are determined not only by initial conditions, but also by new causes appearing later on as well as by other unforeseeable factors, the intended time scope of the general theory is limited. It covers only the patterns of political and economic change during the first decade of post-communist transformation. Predictive power is one of the criteria for assessing the quality of a theory. Therefore, a good theory should not only explain the outcomes of the observable cases of post-communist transformation but also formulate specific prognoses about theoretically possible but unobserved cases.

In order to describe the initial conditions of post-communist transformation three politomic (four values) variables are used: (a) orientation of post-communist transformation; (b) economic mode of exit from communism; and (c) political mode of exit from communism. These concepts are explained in more detail in chapter 2, which also provides reasons how the values for these variables were assigned in 29 empirical cases of post-communist transformation.¹ The transformation orientation variable describes the state of the economic and political culture (or social imaginary) of a communist country on the eve of the post-communist transformation. Its values are continuation, restitution, emulation (imitation), and innovation as ideological orientations.

¹ Among post-communist countries, only Bosnia and Herzegovina, Macedonia, Montenegro, and Laos have not been included in the data-set: this was either because of the unclear nature of their statehood during the first decade of post-communist transformation, or because of a lack of data for performing a QCA analysis – or for both of these reasons.

The domination of one of these four orientations may be explained using Herbert Kitschelt's typology of late communism, which distinguishes between bureaucratic-authoritarian, national, and patrimonial communism. In the bureaucratic-authoritarian communist countries, it was the restitutive orientation that prevailed; the mimetic (emulative) orientation in national communist countries; in patrimonial communist lands, continuational orientation dominated. In the countries where the exit from communism included democratization, one can infer the prevalence of continuational orientation from the outcome of the first relatively free election (with communists or ex-communists emerging as the winners).

The explication of the concept of the economic mode of exit from communism (market reforms) follows, jointly with validation of the ascription of the corresponding variable values to observed cases. The variable economic mode of exit from communism has four values: minimal, partial, gradual-incremental, and radical (aka "economic shock therapy") market reforms. These four values have been introduced in order to supersede the entrenched dichotomy between gradualism and shock therapy. False identification of gradual and partial market reforms lies behind this dichotomy. For my purposes, "partial" means market reforms that are both incomplete and non-impartial. Gradual reforms can be complete if they are consequent and if they do not have the redistributive consequences characteristic of partial reforms. Stop-go partial reforms lead to a redistribution that enriches a tiny minority at the expense of a large majority. Shock therapy makes winners of a majority of the population; however, a large minority remains impoverished and excluded. In the case of gradual-incremental reforms, this minority is only a small group. In most successful cases of this kind of reform (e.g. China and Vietnam), the exit from communism is Pareto optimal: there are no losers. Under minimal reforms, there are few losers but also very few winners. Thresholds derived from annual Transition Reports (issued by the European Bank for Reconstruction and Development) were used to assign values to cases for the economic mode of the exit from Communism variable.

Chapter 2 closes with the analysis of the concept of the political mode of the exit from communism. Compared with analysis of the economic modes, it is not as sharply revisionist as with respect to the transitological mainstream. All four values for the variable political mode of the exit from communism – continuation of authoritarian regime, democratization from above, anti-communist revolution from below, and "refolution" (pact of the ex-communist and opposition elites) – are fairly well described in the literature of democratization. Data and thresholds from the Polity IV data set (Polity IV Individual Country Regime Trends, 1946–2008) were used to assign values for the political mode of the exit from Communism variable.

Chapter 3 explains the concepts used to describe the outcomes of post-communist economic and political transformation. To differentiate among economic outcomes, several varieties of capitalism are distinguished. A good variety of capitalism called rational entrepreneurial capitalism (REC) is examined along with three bad or not so good alternatives to it: political oligarchic capitalism, state monopoly capitalism, and state capitalism. REC is alternatively designated as Weberian-Schumpeterian capitalism to give credits to Joseph A. Schumpeter's description of the role of private entrepreneurship in the capitalist economy and to Max Weber's insight that efficient markets and the very social productivity of private entrepreneurship are conditional on the predictable institutional environment ("rule of law") maintained by the formally rational state. Weber's concept of political capitalism is also my inspiration source for the idea of political oligarchic capitalism.

The typology of the rational entrepreneurial capitalism (REC) is developed, grounded in the combination of the evolutionary (Schumpeterian-Marxian) and world-system approaches. The evolutionary types of REC are differentiated on the basis of Kondratieff cycles theory. They are capitalist modes of production on the technological frontier (in the capitalist world system core states), and are defined by a specific type of the technologically advanced forces of production and by a specific system of production and innovation (relations of production broadly conceived). In this way, five successive capitalist modes of production in the capitalist core countries are distinguished. The newest evolutionary types of the technological frontier capitalism are Fordist capitalism of the fourth Kondratieff wave, and post-Fordist capitalism of the still unfolding fifth Kondratieff wave.

This conceptual framework integrates and historically relativizes the claims of the varieties of capitalism (VoC) theory of Peter A. Hall and David Soskice, who famously distinguish two ideal types of capitalism – liberal market economy (LME) and coordinated market economy (CME) (Hall and Soskice 2001). According to my analysis, VoC theory describes varieties of the technologically advanced REC specific to the fourth and fifth Kondratieff waves. Besides that, in its original formulation this theory can be applied only to the capitalist world system core (or technological frontier) countries, where genuine innovation is the main source of economic growth.

As almost no post-communist country has already reached the technological frontier (except for Slovenia), original VoC theory is more useful for the analysis of the alternative futures or prospects of post-communist capitalism, than for the illumination of its present state. For this goal, world-systemic analysis by Dorothee Bohle, Jan Drahokoupil, Bela Greskovits and Martin Myant provides important insights. They differentiate varieties of post-communist capitalism according to the mode of the country's integration into the global economy. This

mode is defined according to country's export structure; its place in the global and regional commodity chains; how its overall payment balance is maintained. From these viewpoints, four world-systemic or structural types of capitalism can be distinguished: core, semi-core, semi-peripheric, and peripheric capitalism.

While the original VoC theory of Hall and Soskice focuses on the comparative institutional advantages of the capitalist core countries in the genuine technological innovation, it may be elaborated to extend its coverage to the behind-the-frontier countries. In such elaboration different arrangements of economic institutions should be compared from the viewpoint of their capability to sustain derived innovation in closing the technology gap. While state capitalism can display such capability in the countries far beyond the technological frontier, political oligarchic capitalism (or "capitalism from above", to use its characteristic by Iván Szelényi) can only stabilize the path of the dependent development within the capitalist world system.

However, this may not happen under "capitalism from without" which was established in the Central European and the Baltic States due to the leading role of the foreign capital in the privatization. Although structurally they are parts of the semi-core or semi-periphery of the capitalist world system, early accession to the European Union endowed them with institutional frameworks which qualify them to be classified as a variety of REC. Distinctive features of the semi-core REC in Central Europe are captured in the elaboration of the VoC theory by Andreas Nölke and Arjan Vliegenthart, who classify them as dependent market economies (DME) (Nölke and Vliegenthart 2009).

Nölke's and Vliegenthart's analysis of DME illuminates the most important features of post-communist capitalism in the Central European countries. However, it is not so useful for the Baltic States. Therefore, it is supplemented by the differentiation of the two subtypes of DME – Weberian-Porterian capitalism characteristic for Central European countries and Weberian-Friedmanian capitalism in the Baltic States. This extension is presented in the second part of the book as an integral part of the in-depth analysis of the Lithuanian case, while chapter 3 ends with the section on the political outcomes of transformation. It contains a brief explication of the different subtypes of democracy and authoritarianism and the classification of the post-communist political regimes. This closes the preparatory work for the qualitative comparative analysis in search of general patterns of post-communist transformation during its first decade.

Chapter 4 is the central chapter of the book because it goes from conceptual analysis and description of cases by key variables to search for limited generalizations (patterns). These generalizations make the content of post-communist transformation theory; they answer questions about the causes for and obstacles to the rapid transformation (over roughly ten years) of communist economic and

political systems into one of the following: REC plus democracy (liberal democratic capitalism), REC with no liberal democracy, or liberal democracy with no REC. They are complemented by the generalizations about the causes for and obstacles to the transformation of communist economic systems into political oligarchic capitalism or state capitalism, and the causes for and obstacles to the rapid transformation of late communist authoritarianism into liberal democracy.

These (total 10) generalizations were formulated with the help of a multi-value qualitative comparative analysis (mvQCA). The analysis was performed using TOSMANA software.² Therefore, the book you have in your hands is as innovative theoretically as it is methodologically. This is because mainstream transitologists usually apply quantitative methods, not qualitative comparative analysis.³ QCA allows the systematic comparison of all paths of post-communist transformation and the elimination of initial conditions variables with no causal relevance. 29 observed instances of the post-communist transformation all fall under one of 17 pathways by which communism can be transformed, out of a possible 64 (i.e. 4³) pathways. So there are 47 conceptually possible scripts of post-communist transformation with no observed instances. Performing QCA, one can limit its range only to observed instances, or can allow the software to make counterfactual assumptions about unobserved cases. In both cases, the software screens a data set in search of patterns in data, which are derived using a Boolean minimization procedure.

Because of the very high ratio of the number of the conceptually possible pathways of post-communist transformation to that of the observed ones, such analysis may give interesting results only if assumptions about the unobserved cases are made. This strategy is self-consciously applied in the present study. So the “poverty of reality” is not treated as an insurmountable obstacle but as a challenge to apply counterfactual analysis in the research of post-communist transformation. This is the method which an increasing number of researchers consider as practicable in social science (see e.g. Lebow 2010; Tetlock and Belkin 1996; Ferguson 1999; Goertz and Levy 2007).

It is odd that this method is not commonly applied in studies of post-communist transformation – if one excludes the occasional attempts to respond to the question of what, after all, would have happened had there not been a certain Mikhail Gorbachev, or what if he had managed to implement his perestroika policies somewhat more prudently (see e.g. Cohen 2004; Derluguian 2004).

² See website of Lasse Cronqvist <<http://www.tosmana.net/>> 14.06.2011.

³ Except the book by Carsten Q. Schneider (2009). However, Schneider’s data-set includes not only post-communist but also Latin American countries, and he uses fuzzy set QCA. Another attempt is by the group of Slovenian sociologists, who also used fuzzy set QCA. See Adam et al. 2005. Multi-value QCA is the most recent version of QCA and therefore the least applied.

The parts of chapter 4 dedicated to explicit counterfactual analysis are the most methodologically innovative but potentially the most controversial. It is carried out using features available in the TOSMANA software program: while carrying out the Boolean minimization in search of most “economic” (minimal) pattern the program produces detailed reports of counterfactual assumptions about logically possible but empirically unobserved cases. To validate these assumptions, a procedure for disciplined counterfactual analysis was applied. This procedure involves measuring Boolean distances between the empirically observed cases and non-observed configurations of initial conditions to find the most similar cases for each non-observed configuration that was assumed by TOSMANA in the derivation of the minimal formula. Using all available knowledge about the observed cases, the most plausible answers about their most similar “what if?” alternatives are estimated by qualitative judgment.

After supplementing the data set with the most plausible scripts about the outcomes of post-communist transformation for the unobserved cases, five patterns for the positive and five patterns for the negative outcomes are derived. Drawing upon the recent work on the dimensions of lawhood in the philosophy of science (Mitchell 2000), these patterns are qualified as the quasi-nomological generalizations with the following features: (1) low to middle abstraction degree, (2) high strength, (3) very low (but not zero) stability. They describe alternative sets of sufficient conditions of the rapid (over ten years) successful transformation of the communist system into liberal democratic capitalism, rational entrepreneurial capitalism or liberal democracy, or its arriving by the end of the first post-communist decade to political oligarchic capitalism or state capitalism.

The main goal of the Lithuanian “ancestor” of this book was to answer the following questions, which are of the foremost interest for a native reader. What “strain” of communism existed in Lithuania on the eve of the post-communist transformation? In what way were initial conditions similar to, or different from, those in other post-communist countries? Was there something special about the modes of Lithuania’s exit from communism? Were outcomes of post-communist transformation similar or exceptional when compared to results in the other post-communist countries?

While the reworked English version of the book focuses on the general patterns of post-communist transformation, it includes also a discussion of the questions from the latter list. They are discussed in the second part “Capitalism and Democracy in Post-Communist Lithuania: Deepening Comparative Contexts” (chapters 5–7), where a comparison of all cases of post-communist transformation in few respects described by 3 politomic variables for initial conditions and 5 dichotomic variables for the outcomes is supplemented with the comparison of the Lithuanian case with a few selected cases in many respects. The selection of

cases for these comparisons in depth is guided by two criteria: (1) theoretical considerations; (2) the choice of reference countries by Lithuanian public opinion for the assessment of the state of economic and political affairs in the country (most of all, Estonia). Differently from the first part, where comparisons encompassing all post-communist countries are limited to the first post-communist decade, comparisons-in-depth in the second part are extended up to recent time (2010 or 2011, depending on the availability of data).

The latter criterion is the case selection guide in chapter 5 which takes up the question which is tackled again and again in Lithuanian mass media both by concerned citizens and analysts: why was Estonia least hit by the transformational recession in the early 1990s, recovered first and performed best among Baltic States? According to the most influential argument, the culprits are Lithuania's ex-communists who governed Lithuania in 1992–1996. However, while in power ex-communists continued the same shock therapy policy of market reforms (although the reform sequence was different than in Estonia, which may have mattered). Besides that, the performance of Latvia, which like Estonia was ruled by right-wing governments during all the first post-communist decade, was even worse. So alleged ex-communist misrule was not the main cause of Lithuania's underperformance.

According to the author's opinion, the "Nordic factor" mattered most for the re-emergence of the North-South gap in the Baltics, which before 1940 separated underdeveloped Lithuania from other Baltic States which were culturally and socially modern already by this time. This factor is Estonia's geographical proximity and cultural affinity with Scandinavian countries and especially with Finland. Together with more economically rational large scale privatization, the Nordic factor secured for Estonia the edge over other Baltic countries in the competition for the foreign direct investments (FDI).

The critical review of the received explanations includes the discussion whether causes of the relative success of Estonia's neoliberal way may include Protestantism. It is important to remember that Max Weber's famous thesis about the Protestant origins of the "spirit of capitalism" (capitalist economic culture) refers not to Protestantism in general, but only to some of its denominations. Lutheranism, which is dominant in Estonia, was excluded by Weber. However, he made an exception for Pietist revival in 18th century Lutheranism. It is not a matter of common knowledge that one of its currents (Herrnhuter movement) spread in Estland and Livland governorates in the 17–18th centuries, powerfully shaping early modern Estonian culture in the making. So the inclusion of the legacy of ascetic Protestantism into the list of the causes of Estonia's overperformance is quite plausible. Because of this legacy, Estonians managed to adapt more quickly to the new conditions for economic activity.

Lithuanians were hampered by rural lifestyle traditions due to later urbanization and a mentality shaped by the Catholicism of the Counterreformation time. In comparison with the political-economic (“ex-communist guilt”) explanation, the culturalist Protestant ethic argument stands the test better in the Latvian case. The impact of the ascetic Protestantism on the making of the Latvian economic culture was less (Herrnhuter movement was influential only in the Northern part of contemporary Latvia), and its present state was decisively influenced by the huge influx of Russian-speaking immigrants during the Soviet time. The result is an ethnic division of labour, including the over-representation of the Russian-speaking population in business, which was also an unintended effect of the restrictive citizenship laws in the early 1990s.

In chapter 6 the small population of cases under comparison in depth is expanded by Slovenia. The reasons for this extension are mainly theoretical: Estonia and Slovenia are compared by the researchers who are interested in the applicability of the Hall and Soskice’s VoC theory in relation to post-communist capitalism (see Buchen 2007; Feldmann 2006; Adam et al. 2009). As extreme cases, Estonia and Slovenia may provide limit points for the scale that can be used to locate and to profile Lithuanian capitalism which is not such an unambiguous case. In chapter 6 the VoC theory is used as a heuristic guideline: as the source of concepts and clues for the description of the industrial relations, education and training systems, relations between firms in the Baltic States and Slovenia. As a matter of fact, one can discover in the Baltic capitalism many features which VoC theory includes into the definition of LME: low workers unionization, pluralist adversary interest group system, low employers organisation, skills formation system focused on general (transferable) skills. However, these similarities do not validate the classification of Estonia or other Baltic States as instances of LME as defined in the original VoC theory. The reason is the absence of liquid, deep and vigorous financial markets which richly supply venture capital and supervise managers of public corporations in the full-blooded liberal market economies.

These crucial elements in the architecture of the LME cannot come into existence until a country approaches the technological frontier and becomes affluent. So jointly with Central European states, the Baltic States are classified as cases of the REC type called by Nölke and Vliegenthart dependent market economy (DME). However, they represent its distinctive variety, which is designated Weberian-Friedmanian capitalism, to distinguish it from the Weberian-Porterian capitalism in Central Europe. The latter is distinguished by the active industrial policy of the state to preserve and technologically upgrade manufacturing capabilities, by attracting high-quality investment. The former is characterized by the overriding concern to maintain macroeconomic stability and the central role of monetary institutions, with fixed exchange regime as its central element (cp. Drahokoupil 2008).

The institutional framework of Weberian-Porterian DME in the Central European countries enhances their structural advantages in the production of the heavy-complex and light-complex products, developed in the core countries. So such framework enables export sectors in the Central European economies to keep positions in the world production networks, characteristic for the capitalist world system semi-core states. As for the effects of the Weberian-Friedmanian DME institutions, they were different in Estonia than in the other two Baltic States. Due to large scale privatization attracting foreign capital, the Nordic factor, and the early success in building the reputation of the “exemplary pupil” in the international financial circles, Estonia suffered smaller losses in the manufacturing capabilities and was more successful than Latvia and Lithuania in the competition over the higher quality FDI. As a result, Estonia managed to insert itself into the international production networks in the positions characteristic for the semi-core countries. For Latvia and Lithuania, institutions of the Weberian-Friedmanian DME secured only semi-periphere positions with the specialization in the heavy-simple (more characteristic for Lithuania) and light-simple production.

The growth regime of the semi-periphere Weberian-Friedmanian DME with open capital markets and net capital imports driving investment made the Baltic States extremely exposed to the speculation bubbles and impacted on them some of the worst suffering among new EU members from the blows of the world financial crisis in 2008. All the Baltic States chose the policy of maintaining a fixed exchange rate at all costs. This led to internal deflation with unemployment up to 20% of labour force (in Latvia) and a decrease of both nominal and real wages. The outcome was an unprecedented wave of emigration, jointly with other causes diminishing the population of Lithuania by more than 17% since the 1990s. If they continue in the next decade, these demographic trends may push Latvia and Lithuania downward to the position of the periphere remittance economies.

The mixed lessons of the performance of the Weberian-Friedmanian variety of DME in the Baltics are relevant for the internal discussion in Slovenia about the ways and prospects of the institutional change in this country. Slovenia is classified as the only post-communist country which, due to an innovative approach to market reforms and extremely favourable initial conditions managed to exit communism for CME, reached the technological frontier and joined the capitalist world system core. However, in the early 2000s the Slovenian model came under attack by a group of local neo-liberal economists, who considered the short-lived star performance of the “Baltic tigers” as proof of a superior alternative which was allegedly forsaken by the choice of the gradualist approach to market reforms in 1991–1992.

Elaborating the counterfactual analysis in the first part of the book, the author argues that the implementation of the Sachs-Peterle-Umek Act (Slovenian

plan of “shock therapy”) in 1992 most probably would not have made Slovenia an “Adriatic Estonia”. Because of different cultural endowments (Catholic tradition) and political power balance (strong ex-communist position) it would rather have made Slovenia an “Adriatic Lithuania”, with economic performance superior to that of actual Lithuania, but inferior to that of actual Slovenia.

However, if there was a real chance for Slovenia to become an Adriatic Lithuania, there were no real possibilities for Lithuania to become a Baltic Slovenia – a CME country approaching the technological frontier with capabilities for the autonomous development of the technologically sophisticated products which remain competitive on the world market due to sustained incremental innovation. Such an outcome may be preferable for normative reasons, but there were unsurmountable obstacles for Lithuania’s successful exit from communism in the Slovenian mode: (1) a lack of basic market institutions and management skills for running enterprises under market conditions (Slovenia inherited these from Yugoslav market socialism); (2) a nearly complete absence of Lithuanian products in Western markets prior to the collapse of communism (nearly one quarter of Slovenian export volume were going to Western markets in the late 1980s); (3) domination of the restitutive orientation in Lithuania, while intellectual hegemony of the Left had been preserved in Slovenia, providing background and flanking for the innovative economic and political reforms. Although in the early 1990s Lithuanian ex-communists were even more politically powerful than their Slovenian counterparts, the Left’s reputation in Lithuania was tainted by a record of anti-national policies in the service of a foreign empire. Differently from Slovenia, the atmosphere of permanent suspicions and accusations of the “selling Lithuania out” to Russia again severely limits the possibilities of the post-communist leftist politics in Lithuania and paralyzes innovative thinking and action in economy and politics.

The final chapter, chapter 7, is devoted to questions of consolidation and quality of liberal democracy in Lithuania. Taking into account the interests of the broader English-speaking audience, I have paid special attention to one episode in the history of post-communist Lithuania that may appear unique in the context of the development of post-communist democracy. This is the successful impeachment and removal from office of President Rolandas Paksas in 2003–2004. In the attempt to understand this episode of Lithuanian politics, the set of the theoretically selected cases is expanded further by supplementing the Baltic States with Poland and Hungary. Slovenia is excluded, as it turned out to be resistant to the surge of the new successful populist parties in the second post-communist decade.

The author argues that this populist rise is the proper context for the understanding of Paksas’ impeachment in Lithuania. His Order and Justice party has to be classified together with the brothers Kaczyński’s Law and Justice party and its

even more radical allies in Poland, Viktor Orbán's *Fidesz* and Gábor Vona's *Jobbik* in Hungary, Juhan Part's Res Publica in Estonia and Einars Repše's New Era (*Jaunais Laiks*) in Latvia. They were all right-wing populist parties, proclaiming in their anti-establishment rhetoric the war on corruption of the (ex-communist) elite and the coming of "new politics". Exploiting the feelings of relative deprivation of the broad parts of the population who voted in the early 1990s against the communist incumbents but who became the self-perceived losers of post-communist transformation, these populists managed to win pluralities or even majorities in the parliamentary and presidential elections.

While the rise of right-wing populism did not change the political system in Estonia and Latvia, in Hungary and Poland the outcome was the breakup of the implicit ex-communist and anti-communist elite pact which was the foundation of the political stability in the former countries of national communism. The Kaczyński twins founded *Rzeczpospolita IV* (4th Republic of Poland), grounded in the thorough and comprehensive lustration of the ex-communist cadres. *Fidesz* leader Victor Orban used the two thirds majority in the Hungarian parliament to promulgate a new constitution. Lithuania is unique in that the ex-communist and anti-communist elite pact was not abolished, but preserved and consolidated due to the collaboration of all, by this time, "established" and left-of-centre populist parties during the impeachment proceedings.

The impeachment of Paksas can be considered as the stress test of the young Lithuanian liberal democracy, just on the eve of the accession of Lithuania to the EU and NATO. As such, it is interpreted using the core methodological principle of the German political theorist Carl Schmitt – *Ausnahmezustände* (state of emergency) – which states that the most important insights about the nature of social phenomena are to be gained from the study of these phenomena in exceptional, extreme and decisive conditions. An unhappy peculiarity of the stress tests is that they sometimes break or damage the items tested. As far as Lithuanian democracy survived, the test was a success. However, against the expectation of many observers of impeachment events, it did not enhance the quality of democracy of Lithuania. The legacy of impeachment are disequilibrium of the balance of power between government branches in favour of the Constitutional Court, strengthening of the left-of-centre populist political forces and the interference of secret services into Lithuanian politics with the self-assumed mission to safeguard Lithuanian democracy from the perils of populism.

The Lithuanian "ancestor" of the present book included seven parts and twenty one chapters. The English translation has been distilled into eight chapters. I have removed all material that was dedicated to presenting to a Lithuanian audience the many achievements in the field of international post-communist transitology. I have retained what I might dare to call my own more or less original

contributions to this field of study. I have done away with Parts 1 and 2 (covering five chapters) of the Lithuanian text that dealt with the basics of comparative sociological methods. These were geared towards a Lithuanian readership, because this is a subject that is still not well covered in the scholarly literature of my country.⁴ Part three (consisting of three chapters), which was devoted to the emic (Marxist) and etic (non-Marxist) theories of communism as a social order, has been boiled down to a single paragraph in chapter 1. Gone too are chapters 9 and 10 of Part 4, which examined the reasons for the sudden downfall of Soviet and Yugoslav communisms – which differed from the more gradual transformation of Chinese communism – and which sought to explain why Soviet and Communism Studies specialists were unable to predict their collapse. The basic typology of the pathways of post-communist transformation that appeared in chapter 11 of the Lithuanian version has been expanded into a full-scale theory encompassing all cases of post-communist transformation. The warp and woof of this theory is presented in sections two and three of chapter 1 of the English version. This fabric is then turned into raiment in chapters 2–4, which are distilled out of chapters 12–19 from the Lithuanian version. Chapter 4 was newly written for the present book.⁵ Earlier versions of chapters 5–7 were published in Lithuanian and foreign periodicals (Norkus 2007; 2008b; 2008ca). I would like to thank Routledge, Sage Publications and VU Press for permission to reprint this material here.

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⁴ Except for comparative civilizations research which was promoted here in Lithuania by Vytautas Kavolis (1930–1996) after his return from emigration in the U.S.

⁵ Its preliminary version was published in Lithuanian (Norkus 2010a).

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PART I

Patterns
of Post-Communist
Transformation

The four chapters that build the first part of the book contain a general theory of post-communist transformation which in turn provides an explanation of the variation in the outcomes of the first decade of post-communist transformation. This explanation answers the questions of why some communist countries were successful in transforming a planned administrative economic system into rational entrepreneurial capitalism (REC), while others landed at political oligarchic capitalism or state capitalism; why some of them were successful in the transition from the post-totalitarian authoritarianism to liberal democracy (with or without REC), while others failed? This explanation is couched in terms of three variables describing differences in the initial conditions of transformation. It includes systematic exploration of all ways of post-communist transformation, involving counterfactual analysis of those pathways which have no empirically observed instances. The multi-value qualitative comparative analysis (mvQCA) is used as an analytical framework for this exploration, with TOSMANA software employed as the tool of theory construction. Because this theory departs from the empirically observed cases, and is constructed by shuttle movements between putative generalizations (patterns) and cases, it may be described as grounded theory despite the crucial role of the counterfactual assumptions in the derivation of final patterns in the pathways of post-communist transformation.

This derivation and its results are presented in the 4th chapter which concludes the first part of the book. Chapter 2 explicates the concepts used to describe initial conditions of post-communist transformation and explains the reasons for the classification of singular empirical cases by these concepts. In chapter 3, the same work is done with concepts employed to describe the variation in the outcomes of post-communist transformation. The first chapter provides the explication of the concept of post-communist transformation and a general description of the very project of how to construct its theory by means of qualitative comparative analysis.

The theory presented in the first part of the book covers all cases of post-communist transformation and is focused on the discovery of the general patterns of post-communist transformation. However, because the book has another goal – to provide the account-in-depth of post-communist transformation in one selected case (Lithuania), the conceptual analysis goes beyond the needs of the general theory presented in the first part, preparing the tools for the work to be done in the second part. Besides that, in the course of the theory construction and elaboration all opportunities are used to apply the concepts and findings at hand for the illumination of that particular case – Lithuania.

CHAPTER 1

The Concept of Post-Communist Transformation

The first section of this chapter contains a short description of communism as a social system being the point of departure of post-communist transformation, it closes with a typology of late communism. The discussion of the concept of the exit from communism follows in the second section, which is inserted into the deductive typology of the possible developments for a communist regime. This discussion focuses on the question of which changes in a communist social system are sufficient to classify it as post-communist? From a total of 8 communism development types, six are described as exits from communism. In the third section, the concepts to describe the political and economic outcomes of the exit from communism are introduced, and three 4 value variables (orientation, economic and political modes of transformation) for the description of the initial conditions of post-communist transformation are presented. The chapter closes with an explication of how analytical techniques of the qualitative comparative analysis will be used to explain the variation in the observed outcomes of post-communist transformation after its first decade and to explore its possible ways and their patterns.

1.1. What Was Communism?

For the purposes of this book, the most appropriate working definition is as follows: a social system appearing in Russia after 1917, and later spreading to other countries because of the effort to realize the communist utopia envisaged by Karl Marx (i.e. a classless society). This is the simplest definition because it permits only an identification of the referents of this concept – the countries where such a system existed – but it says nothing about communism's internal nature or about any similarities and differences to societies governed otherwise.

A more thoroughgoing characterization of communism depends on which most similar cases are chosen for the comparison with the actual effects arising from the implementation of communist ideas. First of all, a distinction needs to be drawn between the *etic* and the *emic* conceptions of communism (see e.g.

Goodenough 1970: 104–119; Harris 1980: 29–45). The emic conception looks at communism through the prism of Marxism, the very social theory that gave birth to communism. Such a view can be either critical or apologetic; however, in either case it cannot be said that the social order which emerged in Russia after 1917 was communism in the sense of Marx's utopia. He envisioned the free association of people living amid economic plenty whose primary existential need is creative self-fulfilment (not ever-greater consumption) and who, thanks to this, live without state intervention or monetary transactions. This idea of communism never fitted the actual order in the countries governed by communists.

The official ideological doctrine of the communist countries provided an apologetic view of the actual effects of the implementation of communism. Within these countries communism was portrayed as socialism, which was the first phase of communism – the highest and ultimate stage of social evolution. The realization of Karl Marx's idea of communism was thus delayed until some point in the distant future. The most authoritative list of reforms, obligatory for all communist parties that had set out to “build socialism” in their countries, was agreed and signed in Moscow in 1957 by representatives of 64 communist parties attending the fortieth anniversary of the October Revolution. The “Moscow Consensus” included the liquidation of capitalist private property, which was to be replaced with public ownership of the means of production, development of a planned economy, collectivization of agriculture, dictatorship of the proletariat (i.e. political power monopolization by the Communist Party), and so forth.

The critical emic (Marxist) conceptions of the system which appeared in Russia after 1917, and which spread to other countries, are most distinctly represented in the works of the followers of Leon Trotsky. These refer to the system as “deformed socialism” and also as collectivist state capitalism. This differs from traditional capitalism which is based on private ownership, in that the means of production are the property not of individuals, but of a new class of exploiters who own them collectively: the bureaucrat-managers commonly known as the *nomenklatura* (see e.g. Callinicos 1991; Cliff 1955 (1948), 1964; Djilas 1957 (1955)). According to this view, the social changes, which emerged in Central and Eastern Europe after 1989, were nothing less than the morphing of one “strain” of capitalism into another and amounted to nothing more than a divvying up of the collective property of the *nomenklatura* amongst its members, and, therefore, in this way the system returned to capitalism based on private ownership by individuals.

The differences within the etic conceptions of communism depend mostly on the choice of strategy for comparing, conceptualizing and explaining communism. According to the communism-as-totalitarianism theories¹, the key to

¹ Classical works on totalitarianism theory: Arendt 1979 (1951); Friedrich and Brzezinski 1956; Linz 2003 (2000).

grasping the true nature of communism is to be found in a comparison used with Nazism in Germany (and vice versa). Both systems are treated as pathological phenomena of modern society having no historical precedents: “a form of government whose essence is terror and whose principle of action is the logicity of ideological thinking” (Arendt 1979 (1951): 474).²

A totalitarian state is an ideocratic one: the primary motive behind the actions of the government of such a state is the goal of achieving utopia through the radical reorganization of social reality. The most useful tool for this kind of reorganization is mass state-sponsored terror directed at not only the political opponents of communism or Nazism, but also at certain racial, ethnic, and social groups (e.g. Jews, the bourgeoisie), who must be regarded as enemies according to the ideology of the totalitarian movement. This terrifies people and breaks up a society into “social atoms” who don’t trust one another and who become the objects of an unrelenting campaign of ideological indoctrination by the media monopoly of the ruling party.

Communism and Nazism differ from traditional authoritarian regimes not only because of their radical ideology, which is what determines their goal of achieving utopia, but also because of their intolerance towards societal autonomy. Authoritarian regimes restrict the pluralism of interest groups as well as the autonomy of the cultural spheres (scholarship, art, and religion), which is common to modern democratic societies. Totalitarian regimes strive to abolish pluralism and autonomy by placing all spheres of social activity under the political and ideological control of the party. An obedient and apolitical populace is all that authoritarian regimes require. Inside a totalitarian regime, however, if you wish to escape repression it’s not enough to abstain from actions and words that might be perceived as hostile. It is also obligatory for you to actively demonstrate your approval of the regime by participating in activities and events held by organisations under its aegis (demonstrations, campaigns and so forth). This means that authoritarian regimes demobilize the masses; conversely, totalitarian regimes mobilize them.

The second etic understanding of communism sees it as a path of modernization. It holds that the key to explaining the development of societies governed by parties proclaiming the creation of communism as their ultimate goal lies in the biggest “anomaly” in Marx’s theory. Marx foresaw socialist revolution in the most economically advanced countries. Amongst the communist-ruled countries were some that were so advanced before the arrival of communist regimes that, from a Marxist perspective, they qualified as countries ripe for socialist revolution (that is to say, they were countries that were socially and economically modern). These

² According to another version of totalitarianism theory (Karl R. Popper, Karl A. Wittfogel), communism and Nazism were not pathological modernities, but antipodes of modernity (open society): a relapse into closed tribal society or Oriental despotism.

were Czechoslovakia, East Germany, some regions of Poland and, with certain reservations, Latvia and Estonia. Communist regimes were installed in all of these countries at the point of a Red Army bayonet, whereas all of the countries where local communists seized and hung on to power on their own (Russia, China, Yugoslavia, and Vietnam) were either undeveloped or underdeveloped.

In answering the question about what was communism in reality, the communism-as-a-path-to-modernization conception suggests that attention ought not to be focused on utopian ideology or on state terror as a method of implementing this system of government, but on the economic, social, cultural and other changes that took place during the years of communist control, and also on the pace of these changes. Beyond any doubt, Nazi totalitarianism is a modern social pathology (as claimed by Hannah Arendt); communist totalitarianism, meanwhile, is in fact “hyper-modernization” (the forcible acceleration of cultural, social, and economic change which demolishes traditional social structures) (see Šaulauskas 1998a; 1998b). Independent of the ultimate (utopian) goals proclaimed by communist ideology, the communists who pursued these goals first needed to solve the problem of all underdeveloped countries: catching up economically and technologically to the world’s leading powers under the actual realities of twentieth century international power politics. A very revealing fact is that within the Soviet Union “building communism” soon began to signify “catching up with and surpassing the United States.”

Thus, communist revolution and “building socialism” are not the sole means of moving from a capitalist economic formation to a higher one – that is to say a communist one (according to communist beliefs) – but is one way (though possibly the fastest and therefore the most brutal) among a multitude of ways that a traditional agrarian society can transform itself into a modern, industrial, and urban society. The utopianism of the idea of communism should not hinder us from acknowledging that some of the results of its implementation led to veritable technological, social, and economic achievements (for example, industrialization, universal literacy, the partial emancipation of women, and universal health care).

From the viewpoint of the communism-as-path-to-modernity theory, communism seemed like an incomplete modern society where incremental political and economic reforms might succeed in bringing it closer to the liberal democratic societies of the West. The much awaited rapprochement of these two variants of modern society (capitalist and state socialist) was called convergence. In contrast to the proponents of the concept of totalitarianism, the convergence theorists underscored not the differences separating “free world” and “socialist” countries but their similarities.³

³ The most prominent representatives of this view were Barrington Moore Jr. (1966), Cyril E. Black (1966), Jerry Hough (1977), Stephen Cohen (1985a; 1985b), Moshe Lewin (1991 (1988)).

The communism-as-totalitarianism theory predominated during the first decade after World War II. The communism-as-path-to-modernity theory started giving it a run for its money after 1956, when the Twentieth Congress of the Communist Party condemned the repressions of Joseph Stalin (It should be noted that the congress condemned only his repressions of fellow communists). At that time, the rate of economic growth in the Soviet Union and other communist countries was still greater than the pace of development in the countries of the Western world: the planned economy seemed like a viable alternative to capitalism. The Prague Spring of 1968 provided the proponents of convergence theory with cause for optimism. A faction of communist reformers came to power in Czechoslovakia, which prompted intensive discussions about plans for political and economic reforms – policies whose goal would be to “humanize” socialism and give it a “human face”.

However, after the invasion of Czechoslovakia by the Soviet Union and its satellite states (the countries of the Warsaw Pact) new trends appeared in all of these countries that would be hard to reconcile with convergence theory. The “de-Stalinization”, which had raised so many hopes among the proponents of convergence theory, was deemed superficial and unsystematic. It didn’t affect any of the main institutions created during Stalin’s reign (such as the centrally planned economy and “democratic centralism”), which had attained holy status and were therefore untouchable.

These trends, which finally came to light in the 1970s, were summarized by the concept of “communist neo-traditionalism”. Its authors sought the key to understanding the nature of late communism in a comparison of communist-ruled countries not with Nazi Germany or the developed Western countries, but with the countries of the Third World, where modernization was stalled or had failed outright. That is the third etic approach to explaining and conceptualizing actual communism (see e.g. Jowitt 1983, 1992; Walder 1986, 1995; Lupher 1996).

From this perspective, the evolution of the communist regime is a case of the traditionalization of charismatic state power (not the first case of its kind in history) which resulted in a decline brought on by the political corruption that accompanied it. Max Weber held that the most important engine in the process of traditionalizing charismatic power was the interest to entrench the social advantages gained by the members of the charismatic ruler’s entourage by transmitting these advantages to their progeny (see Weber 1978 (1922): 246). The formation of a neo-patrimonial socio-political system is one of several possible alternative endpoints for this process. Max Weber called patrimonial those pre-modern political entities that were regarded as inherited family property by their rulers. A monument to the patrimonial (minus the ‘neo’ prefix) conception of the state is the tale about the ruler who can afford to give away one-third or half of his kingdom as a dowry to the gallant young suitor who beat all adversaries for his daughter’s hand.

In contemporary comparative sociology, a regime is called neo-patrimonial if patrimonial structures exist behind the facade of a modern bureaucratic state (Eisenstadt 1973; Roth 1968; Bratton and Walle 1994; 1997; Robin 1982; Snyder 1992). Neo-patrimonialism as a concept was advanced by political scientists studying post-colonial countries. They called attention to the fact that in most countries of the Third World the formal administrative structures, copied from Western models, hide an essentially pre-modern political reality. This reality consists of the informal networks or clans of patrons and clients that are based on criteria such as membership of a tribe or ethnic group, a common birthplace, service together in a particular locality, or on having been students together at same university, etc.

The organizational system of a neo-patrimonial or clan government runs counter to the principles of law and public administration that fit the ideal type of Weberian bureaucracy (cp. Weber 1978 (1922): 956–1005). It is accompanied by deeply entrenched corruption, which is the practical consequence of the realization of patrimonial rule: an official who occupies a certain position treats his position as his personal property, or as the property of his clan. He uses the power conferred on him by this position as a source of extra income for his network of cronies, or even as the network's primary source of income. Under Stalin, the neo-patrimonial tendencies within the apparatus of communist power were subdued through the use of terror. The rapid turnover of personnel hindered the consolidation of client-patron networks, and it also caused the social atomization of state and party functionaries.

Nikita Khrushchev also battled neo-patrimonial tendencies, except he dismantled the patronage networks not with repressions but with demotions and forced retirements, or by ceaselessly moving functionaries from one far-flung corner to another in the vast expanses of the Soviet Union. When Leonid Brezhnev announced his policy of “cadre stability” a power structure reminiscent in spirit and function of the partial principalities of Old Russia and the feudalism of medieval Europe began to emerge from beneath the facade of the strictly centralized command-administrative apparatus inherited from Stalin's time.

As the clients of higher-ranking patrons, lower-ranking functionaries created their own networks of clients, using their powers to give out promotions, to assign apartments and purchase rights to buy new cars, and other goods that were in short supply. When officials of all ranks began taking advantage of their positions by using state resources for personal gain, workers started doing likewise with production inputs and finished goods. Thus, “moderate” embezzlement of government property gained informal approval (and went unpunished).

In his analysis of the economies of traditional societies, Max Weber distinguishes between two tendencies in the development of the subsistence production household economy. One of these was the development of market exchange

and the differentiation of the subsistence production households into commodity production firms (companies seeking profits by bringing a product or a service to a market) and the consumption households (see Weber 1978 (1922): 370–384; Norkus 2001: 390–392). A second was the transformation of the subsistence production households into an *oikos*. “It is the authoritarian household of a prince, manorial lord or patrician. Its dominant motive is not capitalistic acquisition but the lord’s organized want satisfaction in kind” (Weber 1978 (1922): 381). Most distinctive examples of this type of economic organisation are Ancient Egypt under Ptolemy and Russia between the 16th and 18th centuries.

It is not difficult to recognize the traits of the *oikos* in systems that fall under the rubric of “centrally planned economies”. This is not surprising, because the attempt to eliminate commodity-money relations and to make the direct aim of production not the maximization of profit, but the satisfaction of needs cannot end in anything other than the restoration of the pre-capitalist form of economic organisation. The efficient (optimal) allocation of resources is equally impossible in a socialist *oikos* as it was in the *oikos* type economies of past eras. Planned economies aim to balance, in kind, the inputs (resources) and outputs (production) in the economy. They don’t aim to extract maximal utility from the available resources. The two principal tasks of the stewards of the ancient *oikos* were aimed at satisfying the needs of the lord’s manor and ensuring supplies for the army. The priorities of *Gosplan* were essentially no different. From the time of Stalin’s forced industrialization, the creation and development of the military sector was the principal concern of the governments of communist countries. For this reason, it is apt to describe the majority of these countries as modern military-industrial societies, not simply as modern industrial societies (this was true for the USSR in particular – in the other communist economies the military sector was not the dominating sector).

And so what was communism in reality? Was it a totalitarian society? Was it the path of modernization that ended with the creation of the alternative variant of early industrial society (at the same time as the early modernisers were already becoming postmodern or late-modern post-industrial societies)? Or perhaps communist societies were neo-traditionalist and neo-patrimonial, because diffuse and affective, particularistic and collectivist social relations (of which the favours or “*blat*” (see Ledeneva 1998) is the best example) were their social glue?

It would seem that there is a grain of truth in each of the three etic conceptions of communism. A more precise delineation of their geographic and chronological applicability would bring this grain into sharper focus. None of them seem to suffice when they are applied to all communist regimes throughout the entire period of the regime’s existence. But for each conception, one can pinpoint a country and a time period in that country’s history which offers the most accurate illustration. It is possible to isolate the initial totalitarian phase within the history

of each communist regime, and the excellent phenomenology of this particular phase offers a theory of communism-as-totalitarianism. However, this phase was not of uniform duration in the history of all the communist countries. The longest totalitarian phase was in the USSR and it lasted from 1929 to at least 1953. In most Central European countries this phase lasted only a few years (1948–1953).

Following the period of totalitarianism, we can observe an ever deepening internal differentiation in the communist world. The deepest differences were evident just before the collapse of communism. They were described most precisely by Herbert Kitschelt, who distinguished between three types of communism: bureaucratic-authoritarian, national, and patrimonial communism (see Kitschelt et al. 1999: 19–42; Kitschelt 2003). This differentiation arose because the countries that belonged to the communist world were very different in their civilizational affiliation and their level of development prior to the advent of communism. Both the role played by the communist regimes in the histories of these countries, and the forms of these regimes just prior to their collapse, were heavily dependent upon these initial conditions.

In those countries that were economically, socially, culturally, and politically modern on the eve of the imposition of communist rule (which, in more concrete terms, meant that they were industrialized, urbanized and that their inhabitants were universally literate and had personal memories of life under liberal democratic conditions), totalitarianism was transformed into bureaucratic-authoritarian communism. In these countries, communism meant trading normal modernity for a pathological version of modernity. Such was the “historical role” of communism in Czechoslovakia and East Germany. The theory of communism as a path of modernization doesn’t fit these countries, because they were already modern before the arrival of communism.

Nonetheless, this doesn’t mean that we need to reject outright the theory of communism as a path of modernization. We can simply delimit or, more accurately, delineate its scope of applicability. In countries where the processes of modernization were already underway when communism became entrenched, the totalitarian communist regime mutated into national communism. Under these latter conditions, the economic, social, and cultural modernization continued apace.

In those countries where modernization hadn’t yet got underway (or was just barely underway) when communism was beginning to become entrenched, communism became their (turbo-modern) path to modernity; it transformed itself into patrimonial communism after its totalitarian phase, where particularistic networks of patrons and clients took over the most important roles of social organisation. The bureaucratic-authoritarian communist regimes were the most dogmatic and repressive. But this was also why they were the least corrupt and the most able to manage their economies effectively; they succeeded in manufacturing products

of a fairly high technological level. “Bureaucratic-authoritarian communism came closest to the totalitarian model of a party state with an all-powerful, rule-guided bureaucratic machine governed by a planning technocracy and a disciplined, hierarchically stratified communist party” (Kitschelt et al. 1999: 25–26). Such regimes suppressed the opposition uncompromisingly – including the right, left, and nationalist “aberrations” in the ranks of the communist parties themselves.

In the countries of bureaucratic-authoritarian communism, the only “achievement” was the creation of an apparatus for spying on, watching over, and repressing the citizenry. Its power and penetration far exceeded any historical precedents or analogues in Western countries. Right up to the present “War on Terror” period, when even the most advanced Western countries have begun to systematically curtail traditional civil rights and freedoms, Michel Foucault’s Panopticon vision of modernity had achieved its most complete incarnation in the social reality of these communist countries. Characteristically, it was in the most modern communist country East Germany that the largest proportion of the population (compared to the other communist countries) were drawn into the activities of the secret police – as official collaborators, secret agents, and informers.

Governments in the countries of national communism did not suppress the oppositional elements in society as ruthlessly as governments in authoritarian communist countries. Governments in the countries of national communism would seek compromise; in exchange for apolitical passivity they guaranteed certain civil rights and refrained from assuming total control of all spheres of social life. Certain spheres were left alone (usually ones connected to national heritage and the promotion of “folk culture”), allowing society to take time out from the propaganda and rhetoric that permeated public space. The communist authorities tried to legitimate themselves as the guardians of the working class – the role they had campaigned for throughout the pre-communist period – and as a force that, given the historical and geopolitical circumstances, was the very best (or only possible) defender of national interests. The nucleus of society was made up of members of the urban middle class (“the national intelligentsia”) who had survived from the pre-communist period.

Meanwhile, patrimonial communism “relies on vertical chains of personal dependence between leaders in the state and party apparatus and their entourage, buttressed by extensive patronage and clientelistic networks. At the apex of patrimonial regimes, political power is concentrated around a small clique or an individual worshipped by a personality cult. The level of rational-bureaucratic institutionalization in the state and party remains low because the ruling clique penetrates the apparatus through nepotistic appointments” (Kitschelt et al. 1999: 23). In the countries of patrimonial communism there was no serious opposition, because all of the groups that could have served as a bulwark for the opposition

(with the “creative intelligentsia” at the top of that list) were co-opted and bribed with material and other perquisite (e.g. by treating the members of “creative unions” like hothouse flowers).

Strong communist parties existed in the countries of bureaucratic-authoritarian communism during the pre-communist (interwar) period. Their popular base was formed by a large segment of the working class. This social bulwark along with the backing from the Soviet Union enabled the communists who had come to power to suppress the opposition and fend off any attempt at liberalizing the regime. Of all the communist regimes, they remained the most Stalinist; however, it was for this reason that the tendency to transform into a neo-patrimonialist regime affected them the least.

The pre-communist political regimes in the countries of national communism were authoritarian, and their political agendas were defined by the city-country divide as well as by issues concerning the problems of national minorities. Until they rose to power, the communist parties were comparatively weak associations of intellectuals. Among their ranks were a great many members of national minorities who were drawn to communism because of its internationalist ideology. Once they were entrenched in power by the Soviet Union, the communist parties completed the social and economic modernizations of their countries, but there was no basis for them to lay claim to historical ownership of these modernizations.

Once the collapse of communism was underway, comparatively strong civil society opposition groups were formed. These groups stood in the way of a strong manifestation of patrimonialist communist tendencies. The “nationalizing” of the communist regimes changed the national make-up of the nomenklaturas. The old internationalist generation that was dominated by members of ethnic minorities (and by members of the Jewish minority more than any other) was sidelined by the pragmatists and technocrats for whom membership in the nomenklatura was the only possible route to carving out a career under the prevailing circumstances of the day.

Patrimonial communism became entrenched in countries that had been agrarian and rural in pre-communist times and that had been ruled by authoritarian regimes. The communist parties were narrow groupings of urban intellectuals who competed with forces on the left and right for influence over the peasants. Once they were in power, the communist parties implemented the ultra-rapid modernization of their respective countries, of which a direct consequence was the arrival of an urban middle class. In contrast to the countries of bureaucratic-authoritarian communism, where the urban middle class was made up of people who had belonged to it before the arrival of communism (or their descendants), in the countries of patrimonial communism the middle class was made up of migrants from the countryside who saw their upward social mobility as part of the “historical achievement” of communism in their country.

This social type dominated among the new intelligentsias of these countries. Differently from the “old” intelligentsias who dominated in the other two types of communist countries, they never created a social environment that could have served as a breeding ground for anti-communist opposition or civil society. For this reason, and because of very strong particularistic traditions, the traditionalizing tendencies of patrimonial communism manifested very intensely in these countries when communism started to collapse.

For Kitschelt, the former republics of Czechoslovakia and East Germany are instances of bureaucratic-authoritarian communism. He considers Hungary, Slovenia, and Croatia as cases of national communism, and he qualifies Poland as a mixture of bureaucratic-authoritarian and national communism. From all three varieties of late communism, patrimonial communism has most instances. Kitschelt places Bulgaria, Romania, and all of the former Soviet republics, with the exception of the Baltic countries, in this category. He assigns the Baltic countries, along with Serbia and Slovakia, to the mixed national-patrimonial category. In the case of Lithuanian communism, one can only agree with this classification. However, it is not accurate in the cases of Estonia and Latvia. These countries had more similarities to the late communist strain that existed in Czechoslovakia and East Germany, i.e. bureaucratic-authoritarian communism.

Of course, since the Baltic republics remained provinces within a gigantic empire, where almost all public administration was conducted directly from the centre, the communist regime in Lithuania could not fail to be influenced by the dominant tendency that saw the degeneration of Soviet communism into patrimonial communism. Also, the amount of leeway given to Lithuanians for expressing patriotic sentiments was somewhat narrower than that left to Poles or Hungarians after the end of the totalitarian phase of communism. But it would be historically inaccurate to ignore the new trends in the activities of Lithuania’s local administration that started to manifest themselves after the mid-1950s, when the ethnic composition of the Lithuanian communist party began to change.

The proportion of Lithuanians in the Communist Party of Lithuania surged in the 1960s, when graduates of higher education institutes who were born and raised in the countryside started to join up.⁴ For them, membership in the Communist Youth League and the Communist Party were essential in order to pursue a professional career. At a symbolic level, the reconstruction of Trakai Castle became a symbol of the “Lithuanianization” of communism. In the 1960s, Lithuania crossed the threshold into economic and social modernity by becoming an industrial, urbanized country.

⁴ In 1953, only 38% of the members of the Lithuanian Communist Party were ethnic Lithuanians. In 1964, their percentage had increased to 63%. See Remeikis 1980: 77.

The tendency of patrimonial traditionalization manifested itself with ever greater frequency in Lithuania, right up to the death of Antanas Sniečkus in 1974.⁵ Nonetheless, compared with the republics of Central Asia and the Caucasus, where patrimonial corruption managed to permeate all spheres of social life, the administrative practices of Estonia, Latvia, and Lithuania's communist *nomenklaturas* could easily have met the criteria for Weberian formal technocratic bureaucratic rationalism. If we were to ignore this very uneven heritage of the communist period, we would be unable to explain why post-communist economic and political development was so varied. These differences and the causes of them are the main focus of this book.

1.2. The Concept of the Exit from Communism

There are two ways to conceptualize post-communist transformation. The first is to consider it as a process that aims to reach a certain endpoint by carrying out systematic reforms. Metaphorically speaking, in this case the yardstick of progress is the remaining distance to the endpoint. The second is to see it as a process that moves away from a set of initial conditions. In this case the measure of transformation is the depth and scale (breadth) of the changes undergone by a post-communist country as it moves away from the initial (communist) state.⁶ So, metaphorically speaking, in this case the yardstick of transformation is the distance travelled from the starting point, regardless of the direction of the changes. The greater the difference between the initial and the later state of the country's ideology, social structure, and economic and political system, the deeper and broader the transformation was.

The ideal type of classical communism (put forward by János Kornai) is quite fitting when describing these initial conditions. Its traits are Marxist-Leninist ideology legitimating the one-party monopoly on power; domination of the economy by state and state-owned enterprises; central planning and bureaucratic (command-administrative) economic coordination, soft budget constraints on firms; labour and consumer goods shortages; hidden unemployment; gigantomania; tendency by firms towards autarky; forced economic growth; exaggerated emphasis on quantitative indicators; rewards to producers based on meeting planned targets; striving to maximize production capacity; strict price controls, and many others (Kornai 1992: 359–380; see also Ericson 1991; Winiecki 1988).

This ideal type most accurately describes the political-economic system of the Soviet Union as it existed on the eve of Gorbachev's reforms. Many of the other communist countries were, to some degree at least, at variance with this type because they had already begun to carry out market reforms. In Central Europe, Hungary had travelled furthest down the path of reform. Poland deviated from

⁵ He had been leader of Lithuanian Communist party since 1936.

⁶ Compare Šaulauskas 1999.

the ideal type as far back as the 1950s, when it refused to carry out collectivization. However, collectivization in China was even more radical than it had been in the Soviet Union. In China, peasants were forced into communes, which were units for both production and consumption. On the eve of the collapse of the Soviet Union the communes were already gone, and in terms of the marketization of its economy, China had already caught up to Yugoslavia, which had strayed the furthest from Kornai's ideal type of communism as a political-economic system.

No matter how big these variations, they don't come close to matching the variety of outcomes witnessed in the more than two decades of post-communist transformation that have now passed. Explaining the causes of this variety is the main problem faced by studies of post-communist transformation. This variety requires description and classification before anything else. This is a particularly important step, because the mode of explanation is dependent on the mode of description.

The dominant manner of conceptualizing the paths and outcomes of post-communist transformation is through the paradigm of *transition*, whereby post-communist transformation is understood as a changeover to liberal democracy and rational entrepreneurial capitalism. In this case, liberal democracy is understood as a political regime under which there exists a separation of powers, where the legislature and sometimes also the head of executive (president) are elected in freely contested elections, and where fundamental human rights are constitutionally guaranteed (not just on paper).

Rational entrepreneurial capitalism (REC) is referred to as an open and free and, thus, competitive market system where producers operate under hard budget constraints. This means they go bankrupt if the costs of production exceed market prices, which are more or less determined through price competition.⁷ The principals (actors who obtain the profits, or assume the losses) of most companies, are private entities, and the state limits its role to correcting the market's mistakes. The driving force of economic development is the activities of the multitude of competing entrepreneurs, who are oriented to discover profit-maximizing combinations of the factors of production, along with the search for technological innovation, and are not oriented to battles for political power (which would be political entrepreneurship) or to rent-seeking: obtaining favourable decisions by state authorities for monopoly rights, subsidies, and so forth (which would be political capitalism).

If we conceptualize the post-communist transformation as a transition, then we are treating it teleologically: all post-communist countries are advancing towards a single endpoint (or goal). However, they are not all advancing at the same speed; some stay behind the pack leaders at one remove or another. In understanding the post-communist transformation this way, we can say it has been completed only by the Central European countries and the Baltic States by 2000.

⁷ More details about rational entrepreneurial capitalism and its types are provided in 3.1.

The successful adoption of liberal democracy and REC was certified by the curators of the definitions of these concepts, the club of advanced REC countries who invited these countries to join international organisations such as NATO and the EU. In some post-communist countries the transition is still ongoing, while in others (e.g. Belarus) it is just barely underway.

This book promotes a different, non-teleological concept of post-communist transformation. It is understood simply as the exit from communism. This departure can take several different paths, not all of which terminate at the same end point. The normative superiority of post-communist transformation outcomes that lead to liberal democracy and REC are not under question here. However, an attempt is made to avoid the teleology by privileging *exit from communism* and *transformation*, not *transition* as analytical concepts.

Even more importantly, the variegated internal typology of REC and liberal democracy is greatly emphasized. Because of this huge contrast separating communist countries from the more advanced Western countries, the differences in the political and economic orders of the Western countries might not have seemed very important at the outset of the post-communist transformation. However, these differences grew in importance when the process was in full swing: the choice was no longer between capitalism and socialism or democracy and authoritarianism but between different models or types of democracy and capitalism.

It is the initial state, not the ultimate goal or end point that are important in undertaking a conceptual articulation of post-communist transformation as an exit from communism. First of all, the actual determination of whether or not a country has succeeded in exiting communism is itself a tricky undertaking. An investigator who decides that a key criterion for such an exit is the rejection of communist ideology would be forced to regard China and Vietnam as countries that are as equally communist as North Korea and Cuba, ignoring the massive differences in the economic systems of the two pairs. On the other hand, it is perfectly obvious that China's exit from communism was significantly different than those of Lithuania, Poland, and Russia.

This book resolves this problem in the following manner: a country stops being communist (i.e. exits communism) when Marxism-Leninism stops being the official or dominant (in the sense of Antonio Gramsci's hegemonic discourse) ideology, or when the communist party loses its monopoly on power (when the totalitarian or authoritarian regime falls), or when a capitalist market economy begins to operate. The conjunction "or" here is used in the sense of inclusive disjunction or alternation (and/or). This means that reforms in one of three areas – ideology, economics, or politics – are sufficient for an exit from communism. However, there are more grounds for speaking about an exit from communism when the changes involve two or even all three of these areas.

The only exception is a hypothetical situation (about which some communist revisionists might have dreamed) where the communist party would have surrendered its monopoly on power and gone on to win free and fair elections. It would also be one where the party would have convinced citizens to keep the planned administrative economy, and where Marxism-Leninism would have remained the hegemonic ideology, although under conditions of freedom of speech. This would not constitute an exit from communism; it would instead be an “improved” version of it – the transformation into democratic socialism so dreamed of by revisionists.⁸

Table 1.1. Logical development possibilities for communist regime

Type of development by communist country	Marxist-Leninist ideology	Planned-administrative economic system	Totalitarian or authoritarian political regime
(1) Survival of communism (Cuba, North Korea (?))	+	+	+
(2) Improved communism (democratic state socialism)	+	+	–
(3) Exit from communism (China and Vietnam)	+	–	+
(4) Exit from communism (China around 2030 (?))	+	–	–
(5) Exit from communism and switch to non-communist authoritarian state socialism (North Korea (?))	–	+	+
(6) Exit from communism and switch to non-communist, non-authoritarian socialism	–	+	–
(7) Exit from communism and switch to post-communist authoritarianism (Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Russia, Tadjikistan, Turkmenistan, Uzbekistan)	–	–	+
(8) Exit from communism (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Moldova, Mongolia, Poland, East Germany, Romania, Serbia, Slovakia, Slovenia, Ukraine, Hungary)	–	–	–

⁸ Such transformation of real socialism would correspond to the hopes of its left-wing critics (first of all, Trotskyites). “Rightist revisionists” would also promote the transformation of the planned-administrative economic system into the “socialist market economy”. Differently from the capitalist market economy, there should be no private property to means of production and exploitation of the wage labour.

Table 1.1 is a visualization of all logically possible development possibilities. A plus sign signifies the attribute is preserved, while a minus sign means it is lost. The first and second rows indicate development variants that describe situations where communism survives. Actual empirical cases exist only in the first case. They represent countries where all essential elements of Kornai's model of classical communism have survived. Meanwhile, there are no empirical examples for cases in the second row, because democratic state socialism is basically more of a logical than an empirical possibility.⁹

All of the six remaining possible transformations of the communist system are treated as exits from communism, even if not all of them have been observed in the wild. In some cases it is possible to raise doubts about whether such a possibility might ever arise empirically. This would be most applicable in the development cases of the sixth row, where a ban would remain in place on private property and the hiring of labour, and where the planned-administrative economy would be retained, but where the communist party would give up its power monopoly and Marxism-Leninism would no longer be the dominant ideology. This possible communist transformation comes closest to anarchism (except perhaps for a planned-administrative economic system, which would be difficult to imagine outside of a single-party state). That said, anarchists have never been a serious political force in any communist country, and the likelihood a system based on true anarcho-socialism ever arising (especially a sustainable one) is insignificant.

Similar doubts arise in the development cases of the fourth row, which come closest to the political and ideological expectations of China's political class. Countries where the economic system is capitalist while the official ideology is Marxist-Leninist do indeed exist. These are contemporary China and Vietnam. Is it possible to imagine a scenario where the communist parties of these countries give up their monopoly on power, where communist and anti-communist political forces compete freely for power, and where the communist party manages to go on and win free and fair elections? Were this to ever happen, one might contemplate the survival of Marxism-Leninism as a form of hegemonic discourse. This would be a society that lives under capitalism and liberal democracy but believes they are imperfect. It believes they are dialectically and historically necessary forms of social life which will eventually give way to the famous dictum of "from each according to his ability to each according to his need" once production capacity reaches the required level.

The idea of a capitalist liberal democratic society combined with communist ideology is incompatible with Marxian historical materialism ("the economic

⁹ Alec Nove has pointed out that even if there were only socialist parties under real (multi-party) socialist democracy, competing for votes by different programs (e.g. five year plans) they would disorganize and destroy the planned economy (see Nove 1986 (1977)).

base determines the superstructure”). But, on the other hand, even the universal brotherhood and love of one’s neighbour declared by the salvation religions has little in common with economic and political realities of the societies in which the believers of those religions live.

What about countries that have forsworn communist ideology but have retained a planned-administrative economic system and an authoritarian, or even totalitarian, regime (row 5)? One wonders if this is not the path taken by the communist regime of North Korea. A thorough comparison of Marxism-Leninism and Juche doctrine would be needed in order to make this determination.¹⁰ This does not lie within this author’s competence and would make us stray far from the principal theme of this book – the post-communist transformation of Lithuania in the context of Central and Eastern Europe.

The countries in the third row are also no longer communist. They are capitalist economies that have kept their communist parties in power continuing to suppress any type of political activity that challenges the power monopoly. Their official (institutional) ideology is a sinicised or “vietnamised” Marxism-Leninism. Turkmenistan, Uzbekistan, and Belarus are also not communist countries. However, their economies are closer to classical Stalinist economies than those of China and Vietnam.

The most significant taboo of the communist economic system was the prohibition on the hiring of labour by private businesses.¹¹ This was considered “worker exploitation”, something the communists were keen to eliminate. There is no basis for speaking about an exit from communism in places where such exploitation is prohibited by law (Cuba). Such legal prohibitions have been done away with in China, Vietnam, Belarus, and Turkmenistan, even though China and Vietnam have yet to give up communist ideology. The private sectors of China and Vietnam have been developed much more than they have in Belarus, Turkmenistan, and Uzbekistan, where state control of the economy is far greater. However, Belarus and the countries of Central Asia have rejected communist ideology (state socialism is no longer defended or promoted), and unlike China and Vietnam the ruling dictators aren’t even nominally answerable to the communist party.

Communist parties have survived under different names in some countries (e.g. Turkmenistan), but they have rejected communist ideology. We will label such successor parties “ex-communist” in order to differentiate them from neo-communist

¹⁰ It is rather difficult to consider North Korean Juche ideology even as a “national” version of Marxism-Leninism.

¹¹ Private enterprise as such (without hiring labour), was not prohibited in many communist countries (see Aslund 1985).

parties that have stayed loyal to communist ideology.¹² Neo-communist parties exist in most post-communist countries (the strongest ones are in the Czech Republic and Russia); however, nowhere are they a ruling party. Formally, Uzbekistan and Belarus are multi-party systems; this is just a facade however, because only parties who back their country's presidents – who are dictatorial puppet masters – can operate freely. The power elites in these countries are former members of the communist nomenklatura, or (especially in the case of the Central Asian countries) members of a group connected to the dictator by regional or clan ties (see Luong 2002). Neither the ideology used by these countries to legitimate their power, nor their actual policies have anything to do with Marxist-Leninist doctrine.

Of course, countries where the ideology (official or dominant), the economic system, and the organizing principle of the political system, no longer bear any connections to the communist past have changed far more than the ones which limited themselves to reforming only one or two spheres. Most countries fall into this latter category, although with some of them it may be unclear whether they belong to the seventh or eighth type of the exit from communism. This is due to difficulties arising from the assessment of the changes in their political systems. Such difficulties do not arise in the case of Uzbekistan or the case of Kazakhstan, where the communist ideology was swiftly replaced with nationalism, and where power remained in the hands of the same group. They are authoritarian regimes. But regarding such countries as Armenia and Georgia, where there was a significant change in the ruling elite, observers wonder aloud if periodically held elections are not simply window dressing that is engaged in by regimes which are essentially authoritarian.

It is not the aim of this book to present a theory of development for communist countries in general – only a theory of post-communist transformation for the large majority of communist countries. However, this theory was developed as a tool for the analysis of the unique features of one country – Lithuania. With this goal in mind, it needs to be stated that an analysis of transformations that involves comparing Lithuania against countries that are radically different (Cuba and North Korea) – where the communist system has remained unchanged – would give us nothing. This is why the field of interest will be narrowed to include only countries where a post-communist transformation actually occurred, that is to say, to countries that have exited communism. These are countries that belong to the third, seventh, and eighth type.

The next task to undertake is to draw up a typology of the paths of post-communist transformation. Up to the present, we've only had criteria that can be used

¹² The Party of Communists of the Republic of Moldova is considered as ex-communist. Despite proclaimed allegiance to communist ideology, its policies while in power (2001–2009) were not different from those of ex-communist governments in other countries.

to distinguish countries that have exited communism from ones that have remained communist. However, even after recording the actual fact of exit there remains the unanswered question about the outcome of this exit. Empirically observed cases in rows 3, 7, and especially in row 8 of table 1.1 are described only negatively according to the number and type of communist traits they shed during the period of post-communist transformation: how much they are now dissimilar to the classic system of communism as *terminus a quo* (point of departure) of post-communist transformation. For a positive description, the points of arrival (*termini ad quem*) of this transformation should also be defined and classified.

We've already mentioned that no matter the differences in the points of departure of post-communist transformation, their variations can in no way be compared to the differences between the outcomes that we have seen in the two decades of post-communist transformation. The wider the gap between a country's situation under communism and its post-communist experience the greater the variation. There are fewer differences among the post-communist countries that did away with the planned-administrative economy but kept communist ideology and authoritarian politics (row 3: China and Vietnam) than there are among those who threw away both the planned economy and communist ideology. However, the greatest differences exist among those countries that advanced the furthest from their communist *terminus a quo*, shedding Marxist-Leninist ideology, the planned economy, as well as their authoritarian (totalitarian) regime.

This is why there remains another task: defining the outcomes of post-communist transformation using logically positive terms. Then we will be able to answer the questions: how many paths of post-communist transformation were there and what were these paths?

1.3. Conceptual Foundations of the Typology of Paths of Post-Communist Transformation

To answer these questions, I will differentiate between four aspects of the exit from communism: 1) its orientation, 2) economic mode, 3) political mode, and 4) outcome. A single path of post-communist transformation is defined by a combination of these variables. Let me explicate these concepts.

The orientation of exit includes both the understanding of its goal, dominant in the culture at the point of exit as well as an assessment of the communist present and pre-communist past. These notions legitimate or frame post-communist transformation as a good and just thing. It is possible to call it the "lived ideology" or popular philosophy of the exit from communism. Very useful to any analysis of the orientation of the exit from communism is the classification system of post-communist social change orientations advanced by the Lithuanian researcher

Marius Povilas Šaulauskas. These are: continuational, restitutive (or restorational), imitative (or emulative, mimetic), and innovative (Šaulauskas 1999).

For the purposes of this book, I will employ Šaulauskas' terminology, although in some cases the terms will carry meanings that may be slightly different from the way he uses them.¹³ The dominant orientation in any given country is best revealed by the results of the first relatively free elections (assuming these have taken place). In the countries dominated by the continuational orientation, elections were won by ex-communists. In the places where the restitutive or mimetic (emulative) orientation dominated, the newly acclaimed anti-communists were victorious.¹⁴

Continuational orientation posits as the main goal of post-communist transformation the preservation of certain "positive" achievements of the communist period while trying to put right its shortcomings and excesses (e.g. communism's neglect of the importance of nation or markets). This orientation has dominated, and in many cases continues to dominate, in Belarus and most Central Asian republics. At the beginning of the post-communist transformation, this orientation dominated in South-Central European countries such as Bulgaria and Romania, but towards the end of the 1990s it was overtaken and pushed aside by the neo-liberal emulative (mimetic) transformation ideology.

The innovative orientation is similar to the continuational one in that it eschews the appraisal of all aspects of the communist era in a negative light only. The innovative and imitative orientations are united by their critical take on the pre-communist period. This trait distinguishes them from the restorative (or restitutive) orientation. However, if from the continuational viewpoint there were more good things than bad under communism, then the situation is the other way round from an innovative ideological viewpoint: there were definitely more bad than good aspects to communism.

A separate form of the innovative orientation is "messianic post-communist". This is the belief that thanks to the experience of the communist period, the post-communist countries can make an original contribution to Western or global civilization by creating new forms of political or economic activity which surpass Western ones in some way or other. Pragmatism¹⁵ and openness to the notion of a "third way" between capitalism and socialism are characteristics of the innovative

¹³ I use the term "orientation" in the more narrow or circumscribed sense. In the Šaulauskas' usage, "orientation" also covers the topics that are considered in this book separately as modes and outcomes of transformation.

¹⁴ Slovenia where innovative orientation was dominant was a special case. Although anti-communists were victorious at the first free parliamentary elections, the leader of the ex-communists Milan Kučan, was elected president.

¹⁵ The pragmatic approach is exemplified by the famous remark of the father of market reforms in China Deng Xiaoping about the irrelevance of colour to a cat's mice catching ability.

orientation. We see some of this in the post-communist transformation processes in Slovenia, China, and Vietnam.

The restitutive orientation posits as the goal of post-communist transformation the re-creation of the pre-communist economic and political system (which it views as a golden age). The mimetic (or imitative) orientation holds as its uncompromizing ideal and reference point the advanced political and economic systems of the West; it wants everything to be “just like in the West.” The communist period is seen quite critically and the only thing it perceives positively is the anti-communist resistance. The negative assessment of all aspects of the communist period is a trait held in common by the restitutive and mimetic ideologies; they are, however, divided over the pre-communist era, which in the imitative transformational ideology is viewed no less critically than the communist time.

It is important to note that the dominant post-communist transformation orientation is not just the mindset of the ruling elite. The orientation of post-communist transformation is a characteristic of the mentality of the broad mass of citizens, that is to say of the “social imaginary”, which is expressed through their preparedness to accept economic and political changes, to bear the costs of those changes, and to make use of the opportunities the changes create. In countries where the innovative orientation is strong, the masses are both the object and the collective subject of the post-communist transformation. This means that most of the innovative institutional decisions about the liquidation of communism arise through improvisation from the bottom up and in the here and now.

The legitimacy of the exit from communism and that of the post-communist political and economic system both depend on the manner of the dominant orientation. The innovative orientation is not the only one capable of legitimating these. They can be legitimated by both the mimetic (emulative) and restitutive orientations. The continuational orientation is least favourable to the exit from communism and is characteristic of countries where communism survived the longest, and which were least affected by Western cultural influences. It was in these countries that communist indoctrination was strongest. It shaped the *homo sovieticus* mentality that became accustomed to paternalistic governance and alienated from the capitalist economic culture, which Max Weber has famously called the “spirit of capitalism” or capitalist economic ethics. All four types of orientation are discussed in the first section of chapter 2.

A dearth of legitimacy is not enough to stop market reforms from being launched, although it can have an impact on the outcomes. Reforms can be carried out in different ways, which are described in this book using the concept of the mode of exit from communism. In order to describe different modes of exit from communism, the literature uses the concepts of revolution and reform; their concrete content depends on whether they're applied to economic or political changes.

One mode of exit from a planned administrative economy is through gradual, incremental reforms: problems are tackled consecutively and in learning-by-doing mode. This mode of exit is described by the well-known concept of piecemeal social engineering invented by Karl Popper (1957 (1944–1945): 58–64), and also by Otto Neurath's no less well known metaphor of rebuilding a ship in open sea by replacing its parts one by one. The opposing mode of exit is Karl Popper's concept of holistic social engineering. In this case the whole economic system is completely demolished so as to unleash private enterprise that will result in a near-perfect free market economy. Market reforms are understood as a grand leap from communism to capitalism.

Nonetheless, by delving into the factual course of events of post-communist transformation, it quickly becomes evident that the reform-revolution antithesis is insufficient for describing the variety of exits. Speaking about the transformation of the communist economic system, there is a mistaken assumption that there are only two possibilities: shock therapy and the incremental-gradual approach. In truth there are two more: minimal market reforms and, finally, partial reforms, a term coined by Joel S. Hellman (1998)¹⁶, which need to be distinguished from the above-mentioned gradual-incremental reforms (Hellman did not draw this distinction).¹⁷

The mode of minimal market reform is common to the communist countries that limited themselves to legalizing private economic activity while keeping the reins of economic control in the hands of the state. The most obvious cases of minimal market reforms are Belarus and Uzbekistan. Partial market reforms were carried out in Bulgaria, Romania, Moldova, Ukraine, Georgia, Armenia, Azerbaijan, and Kazakhstan.¹⁸

In these cases the governments behind the reforms did not try to hang on to the reins of economic control and carried out a widespread privatization of state

¹⁶ In fact, the adjective “partial” used to characterize market reforms may mean two different things: (1) the reforms are not impartial (biased); (2) only part of the full reform set is implemented. For some reason Joel Hellman identifies partial and gradual (incremental reforms). This identification is misguided, because there are no principled obstacles to implementation of the full reform set in the gradual way. More importantly, under the conditions of the democratic political processes, non-impartiality of the distributive outcomes is more probable, if the reforms are implemented in the gradual rather than in the shock therapy mode.

¹⁷ “No market reforms” remains as another logical possibility. However, if a planned-administrative economic system remains (as in the case of Cuba and North Korea), then there is no reason to state the very fact of the exit from communism. This possibility should be included if we were interested not in the ways of post-communist transformation, which by definition includes the exit from communism, but simply in the ways of the development of communist countries. This broader concept includes the preservation of communism.

¹⁸ In Russia, market reforms were implemented in the shock therapy mode, but they failed to lead this country into rational entrepreneurial capitalism (see 2.2).

enterprises as well as a de-collectivization of the countryside. But, for various reasons, either they didn't have a full-blown strategy or they were unable to implement them. Market reforms ended up being partial because they enabled a tiny number of people, the "early winners", to appropriate rents, while impoverishing a large segment of the population at the same time. The differences between these four modes of economic exit from communism are discussed in greater detail in the section 2 of chapter 2.

In the analysis of modes of political transformation, the reform vs. revolution opposition falls short too. First, as we have seen, it's possible to exit communism without a political transformation, by retaining an authoritarian regime. That was how things unfurled in China and Vietnam. Authoritarian governments carried out incremental market reforms, giving their blessing to innovative grassroots initiatives and respecting the property rights of business people. In essence, those countries are liberal autocracies in the making (cp. Zakaria 2003).¹⁹ There was no liberalization of the authoritarian regimes of Uzbekistan and Turkmenistan, where the governments swore off Marxism-Leninism and carried out minimal market reforms. All of these cases are instances of the conservative mode of political transformation.

Secondly, in analyzing the trajectories of change of the political systems in communist countries that were pointed towards democracy, it is possible to identify three modes of democratic changeover that resulted in the governments legitimated by freely contested elections: reform from above, reform from below, and a middle-way of democratization between reform and revolution (pacted democratization), for which the literature uses Timothy Garton Ash's term "refolution" (Garton Ash 1989). All of these concepts are given more detailed consideration in the next chapter of this book (see 2.3).

The pathway of post-communist transformation is defined by a combination of the transformation orientation, the modes of political and economic transformation, and by the outcome of economic and political transformation. In most cases the actual arrival points were vastly different from the initial expectations. It should suffice to recall that in Lithuania in 1989–1990 there was a widely held belief that the Baltic countries would be virtually no different from Sweden and the other Nordic countries after quite a short time. Sometimes such a problem is resolved by switching the traveller's mind. If we stop at a pub as we're heading to church and stay until closing time, we will lose interest in going to church, although we may decide to pay a visit to a friend or go to another pub. In the same way, post-communist transformation brought some post-communist countries to

¹⁹ However, Fareed Zakaria lacks the resolve to classify China as a liberal autocracy in the making. He is more interested in the non-liberal democracies than in the liberal non-democracies.

a place other than the one they had been heading towards. Besides, their dominant orientation (or ideology) changed underway.

The clearest example is Russia. Mimetic neoliberal ideology dominated in its metropolitan centres (Moscow and Saint Petersburg) during the first years of post-communist transformation. The goal of the exit from communism was to turn Russia into a “normal Western country”. In Russia this ideology has now been sidelined. It was pushed out by the continuational and restitutive orientations, which aim to reclaim the greatness of Tsarist Russia through the doctrine of sovereign democracy. There has been a similar change in the Baltic countries, where the restitutive orientation dominated at the beginning of the post-communist transformation. But already by the mid-1990s it was overtaken by the mimetic orientation.

I will resolve this difficulty by specifying and delineating a specific period for the analysis of the pathways of post-communist transformation proposed in this book. This is the first decade of post-communist transformation, which roughly coincides with the last decade of the twentieth century. The coincidence is a rough one because it's hard to specify a precise starting date for that decade (Is it better to date it from 1 January, 1990 or from 1 January, 1991?). The exit from communism did not start at the same instance across all of the countries in question. In some Central European countries (Poland, Czechoslovakia, East Germany) it began in 1989. Meanwhile, it is reasonable to set the beginning of the exit from communism of the former republics of the USSR at the end of 1991, because it was only after that time that they became independent countries with their own economic and foreign policies, and with comparatively independent domestic politics. For these same reasons, I will set 1991 as the date of exit from communism of the former Yugoslav republics.

If we date the beginning of the post-communist transformation in this way, then we can say it ended in 1999 in Central Europe, and we can tack on a couple of years for other ex-communist countries and say the process ended in 2001 for them. Albania's exit from communism is a separate case. It began in 1990, a year later than Central Europe but a year earlier than the USSR and Yugoslavia. I will consider the year 2000 as the end of the first decade of post-communist transformation for this country.

Another exceptional case is the chronology of China's exit from communism. For the purposes of this book, I will not put the beginning of the exit from communism in China at 1978, the year of the first market reforms. After the massacre of anti-communist opposition in Tiananmen Square in 1989 the conservative faction within the leadership of China's communist party had temporarily gained the upper hand and halted market reforms for several years. After Deng Xiaoping's visit to southern China in the autumn of 1992 and the 14th Congress of the Chinese Communist Party in October of the same year, the drive to create a “socialist

market economy” was not only renewed, but gained new meaning and impetus. So I will consider 1993 as the first year in China’s exit from communism. And so, the first decade of post-communist transformation ended in that country in 2002.

This chronology of China’s post-communist transformation is in no way arbitrary. The international context changed radically after the collapse of the USSR, providing to China’s sustained market reforms the meaning of an exit from communism. Up until the 1990s, the reforms it had carried out did not have this meaning. Otherwise, we would need to begin counting Poland’s exit from communism in 1956, when Poland’s new communist leader Wladislaw Gomulka allowed the peasant farmers to leave the collective farms that had been modelled on those of the Soviet Union. China’s communist leadership did this same thing at the beginning of the 1980s; however, China did not go any further than Poland had gone twenty years before. “There is a substantial difference between the market reforms of a real socialist economy and a post-socialist market transformation. In the former case, it is about changing the way the present system functions in order to retain it” (Kołodko 2010: 4). In the second case, processes take place, thanks to which, a communist economy is transformed into a capitalist market economy.

Hungary started market reforms in 1968, an entire decade before China did. By 1989 Hungary’s private sector was no less developed than China’s, but this does not mean that there is any basis to set 1968 as the date of Hungary’s exit from communism. All of the post-communist countries started their exit from communism around the same time, in 1989–1992, but all of the economic reforms up until that time did not create equally favourable conditions for their exit. Conditions were most favourable in the former Yugoslav republics, because Yugoslav socialism was the most thoroughly market-oriented of the former communist countries on the eve of the collapse of communism (see Ward 1958). Of the countries that can be said to have exited communism, China was the very last to begin its exit, not the first.

In Vietnam the communist party started reforms in 1986, under the very evocative label *do moi* (“renewal”). Although Vietnam and China do not have warm relations, the economies of these two countries are deeply intertwined, and the communist government of Vietnam traditionally follows the example of China and mimics its experience (see e.g. Chaponnière et al. 2008). However, the most important thing is the change in the international context that followed after the collapse of the Soviet empire. This is why I will say that the chronological limit of Vietnam’s exit from communism is identical to China’s. Due to a lack of data I have not included Laos, a satellite country of Vietnam in the present analysis.²⁰

²⁰ Bosnia and Herzegovina, Montenegro, and Macedonia are not included too – either because of data shortage, or because of the problems of the identity as separate states during the time under consideration.

Further, I will present the foundations of a systematic classification of the pathways of post-communist transformation, in the same manner that the analysis of the concept of communism was concluded by differentiating among eight potential paths of communist development. The logical space of this classification system is constituted by the above introduced variables of post-communist transformation orientation and of the political and economic exit modes. However, differently from the variables that we used to describe exit from communism, they are politomic, not dichotomic. Each variable of the transformation orientation and of the economic and political mode can have four values. This means that there are $4^3 = 4 \times 4 \times 4 = 64$ possible combinations. The overall number of pathways of post-communist transformation depends on the number of outcomes of post-communist transformation.

There exists a tradition in post-communist transitology of classifying outcomes dichotomically: cases are labelled “successful” or “failed”. The first group are the countries that succeeded in moving from an authoritarian or totalitarian political system and a command-administration economy to liberal democracy and rational entrepreneurial capitalism. The social system comprising that type of economic and political subsystem is one that I will call liberal democratic capitalism. To underscore the differences among failed post-communist transformations I will use the concepts of political oligarchic capitalism and state capitalism. All of these concepts are explained in greater detail in chapters 2 and 3 which also provide arguments about the subordination of concrete cases.

If it did not happen in the first decade, the transition from communism to liberal democratic capitalism could succeed in the second one. Democratization (the “coloured” revolutions) and market reforms could begin again from scratch. However, the outcomes of “second-wave reforms” and the variations in their causes is a separate problem lying outside of the ambit of the present study. The political and economic problems faced by second-wave reformers are essentially different from those faced by the demolishers of communism. Even more importantly, causal factors that are sufficient for explaining the different outcomes of the first post-communist decade become insufficient when the object of explanation is separated from the collapse of communism by two decades instead of one.

Having decided a chronological framework for the analysis of post-communist transformation pathways, let’s try to find out how many of these pathways there were. If the outcome variable is dichotomic, and three four-value variables are used, then there are 128 separate combinations ($4^3 \times 2^1 = 4 \times 4 \times 4 \times 2 = 128$). Such a large variety of pathways might be plausible if we were dealing with actual paths in the geographic sense. Such paths, beginning at a single point of departure, can lead to opposite directions. But investigators of post-communist transformation use the term “path” metaphorically. They are interested in causal pathways where the initial conditions determine (i.e. limit) the potential variety of outcomes.

If, under a certain set of initial conditions, the successful (from a transito-logical viewpoint) and the unsuccessful outcomes are equally likely, then those initial conditions are irrelevant for explaining and predicting them. A theory of post-communist transformation should be able to indicate which outcome is to be expected (if the theory is deterministic) or which outcome is most probable (if it's probabilistic) for each combination of initial conditions, even before the start of the process of transformation. In deterministic theory with three four-value independent variables the number of paths for post-communist transformation could not be greater than 64 (see table 1.2).

Table 1.2. The classification of the pathways of post-communist transformation during first decade

1. No. of pathway	2. Orientation of transformation	3. Political mode of transformation	4. Economic mode of transformation	5. Liberal democratic capitalism	6. Cases
1	0	0	0	0	Turkmenistan, Uzbekistan
2	0	0	1	0	Kazakhstan Kyrgyzstan
3	0	0	2	?	<i>Contautorgrad</i>
4	0	0	3	?	<i>Contautorshock</i>
5	0	1	0	0	Belarus
6	0	1	1	0	Bulgaria, Moldova, Mongolia, Romania, Ukraine
7	0	1	2	?	<i>Contrefgrad</i>
8	0	1	3	?	<i>Contrefshock</i>
9	0	2	0	0	Tajikistan
10	0	2	1	0	Albania, Armenia. Azerbaijan, Georgia
11	0	2	2	?	<i>Contrevolgrad</i>
12	0	2	3	?	<i>Contrevolshock</i>
13	0	3	0	?	<i>Contpactmin</i>
14	0	3	1	?	<i>Contpactpart</i>
15	0	3	2	?	<i>Contpactgrad</i>
16	0	3	3	?	<i>Contpactshock</i>
17	1	0	0	0	Serbia
18	1	0	1	?	<i>Restautorpart</i>
19	1	0	2	?	<i>Restautorgrad</i>
20	1	0	3	?	<i>Restautorshock</i>
21	1	1	0	?	<i>Restrefmin</i>
22	1	1	1	?	<i>Restrefpart</i>
23	1	1	2	?	<i>Restrefgrad</i>
24	1	1	3	?	<i>Restrefshock</i>
25	1	2	0	?	<i>Restrevolmin</i>

1	2	3	4	5	6
26	1	2	1	?	<i>Restrevolpart</i>
27	1	2	2	?	<i>Restrevolgrad</i>
28	1	2	3	1	Estonia, Latvia
29	1	3	0	?	<i>Restpactmin</i>
30	1	3	1	?	<i>Restpactpart</i>
31	1	3	2	?	<i>Restpactgrad</i>
32	1	3	3	1	Lithuania
33	2	0	0	?	<i>Imiautormin</i>
34	2	0	1	?	<i>Imiautorpart</i>
35	2	0	2	?	<i>Imiautorgrad</i>
36	2	0	3	?	<i>Imiautorshock</i>
37	2	1	0	?	<i>Imirefmin</i>
38	2	1	1	0	Croatia
39	2	1	2	?	<i>Imirefgrad</i>
40	2	1	3	0	Russia
41	2	2	0	?	<i>Imirevolmin</i>
42	2	2	1	?	<i>Imirevolpart</i>
43	2	2	2	1	Slovakia
44	2	2	3	1	Czech Republic, East Germany
45	2	3	0	?	<i>Imipactmin</i>
46	2	3	1	?	<i>Imipactpart</i>
47	2	3	2	1	Hungary
48	2	3	3	1	Poland
49	3	0	0	?	<i>Inovautormin</i>
50	3	0	1	?	<i>Inovautorpart</i>
51	3	0	2	0	China, Vietnam
52	3	0	3	?	<i>Inovautorshock</i>
53	3	1	0	?	<i>Inovrefmin</i>
54	3	1	1	?	<i>Inovrefpart</i>
55	3	1	2	?	<i>Inovrefgrad</i>
56	3	1	3	?	<i>Inovrefshock</i>
57	3	2	0	?	<i>Inovrevolmin</i>
58	3	2	1	?	<i>Inovrevolpart</i>
59	3	2	2	?	<i>Inovrevolgrad</i>
60	3	2	3	?	<i>Inovrevolshock</i>
61	3	3	0	?	<i>Inovpactmin</i>
62	3	3	1	?	<i>Inovpactpart</i>
63	3	3	2	1	Slovenia
64	3	3	3	?	<i>Inovpactshock</i>

Orientation of transformation: 0 – continuational; 1 – restorational (restitutive); 2 – mimetic (imitative, emulative); 3 – innovative. Mode of political transformation: 0 – conservative; 1 – reforms from above; 2 – revolution from below; 3 – “refolution” (pacted democratization). Mode of economic transformation: 0 – minimal reforms; 1 – partial reforms; 2 – gradual incremental reforms; 3 – shock therapy. Outcomes of transformation: 1 – liberal democratic capitalism created in the first post-communist transformation decade; 0 – no liberal democratic capitalism created. For an explanation of the terms *Contautorgrad*, *Contautorshock* etc. see chapter 4.

Table 1.2 contains the comprehensive list of pathways of post-communist transformation. Each row contains the description of the one from 64 pathways. These descriptions will be called scripts to suggest the analogy with movie or play scripts. Such scripts specify sequences of human interactions. In the good script, after the setting and characters are specified, one can reasonably predict how the action will unfold given opportunities and constraints of the initial “logic of situation”. If the action takes a long time, this does not necessarily mean that one can predict how the action will end. If this was the case, then nobody would read more than the opening pages of the play or watch the movie to the end. However, the knowledge of the initial configuration is usually sufficient to predict how the first act in the drama will end or how the scene currently observed will be resolved. So columns 2–4 in table 1.2 contain the specification of the 64 initial settings for the drama (but sometimes also tragedies) of post-communist transformation, and column 5 contains the description of its real or most probable outcome. The last column contains the names of instances exemplifying the script in question. Some scripts are real (they describe empirically observed pathways), while others are merely assumed, containing bare story outlines for the post-communist transformations that did not take place in reality (its counterfactual cases). Differently from the table 4.1, the outcome column in the present table contains a mere question mark for these cases.

I would like to ask the reader for patience here or, if you wish, you may go straight to chapter 4 for an explanation of the choice of names for counterfactual cases of post-communist transformation. In this chapter, one will also find arguments for the assumed outcomes in these counterfactual cases. These outcomes will be specified in more detail, differentiating between different types of outcomes: liberal democratic capitalism; rational entrepreneurial capitalism (REC) without liberal democracy; liberal democracy without REC; political oligarchic capitalism (with or without liberal democracy); and state capitalism (with or without liberal democracy). However, before starting to execute the project of the theory of post-communist transformation (in chapters 2–4), I would like to conclude this introductory chapter with more information about the project itself, its inspirations and technical tools for its realization.

The question of conditions for a successful post-communist transformation was a topic of intense discussion, as much on the eve of the transformation, as it was during the height of the process, and as it was post factum. Investigators studying conditions on the eve of a transformation were most interested in which two paths – gradual reforms or shock therapy – offer the best chances for a successful outcome. Whenever a transformation was over, much arguing ensued over the actual mode of reforms carried out in specific countries. There are also debates about the causes for their success, or lack of it. No less vigorous was the debate over

which mode of democratic transition (revolution or reform) has a greater chance of creating a stable, high quality democracy. Transitologists usually use statistical methods for verifying their hypotheses about the causes of the successes, or lack thereof, of post-communist transformation. The construction of regression equations is the most common approach. Researchers try to see if there is a statistical link between economic policies carried out during a country's exit from communism (i.e. the mode of the exit from communism) and various economic indicators that reveal its macroeconomic dynamics (see e.g. De Melo et al. 2001). In this book an attempt is made to formulate and verify certain generalizations about the underlying causes of different outcomes of post-communist transformation by using Qualitative Comparative Analysis (QCA) (see Ragin 1987).

QCA is not, strictly speaking, a method for verifying causal hypotheses, but a framework that assists in organizing and directing the dialogue between theoretical ideas and empirical data, in which causal hypotheses are not only verified, but also articulated in greater detail. For this purpose the minimal Boolean formula search function available in QCA software is particularly useful (see chapter 4). This function allows the scope of analysis to be expanded through the inclusion of empirically unobserved cases. In this way, QCA can be used as a tool for constructing theories where all the theoretically possible causal hypotheses are considered. The TOSMANA software is preferable in this instance, because it generates a report about counterfactual assumptions made when logically possible but empirically unobserved cases are included in the analysis.²¹

QCA is also suitable for assessing the coverage of the available causal hypotheses and for identifying missing variables that can explain specific outcomes. Contradictory rows in the QCA truth table are symptomatic for such variables.²² These rows describe combinations of conditions that have empirically observed instances with different outcomes. For instance, let's assume we have two countries in which the post-communist transformation was oriented mimetically, where an anti-communist revolution took place and the economic transformation was carried out in shock therapy mode. If in one of these countries post-communist transformation succeeded, while in the other it failed, then one can conclude that the initial hypothesis omitted the variable that decides upon success or failure. However, the problem of contradictory rows can be resolved in another way – by coming back to cases in such rows and checking if the values of the variables were correctly assigned to all these cases.

²¹ This software can be downloaded for free at <<http://www.tosmana.net/download.html>> 20.04.2011. On the same website the instructions on how to operate this software are available. For more materials about QCA and its application in social science see <<http://www.compass.org/>> 20.04.2011.

²² Table 1.2 is an example of QCA truth table without contradictory rows.

QCA has not been used often in investigations of post-communist transformation. One of the rare exceptions is Carsten Q. Schneider's *The Consolidation of Democracy*. The author has used a version of QCA called fuzzy set qualitative comparative analysis (fsQCA) (Schneider 2009).²³ It is most suitable for situations where quantitative data about dependent and independent variables are available but the investigator is seeking to formulate or verify not the quantitative (statistical), but the qualitative determinist hypotheses, in which an effort is made to take into account multiple conjunctural causation. For this purpose, the values of the quantitative variables are transformed into fuzzy sets membership scores, and afterwards the logical relations between fuzzy sets, which correspond to dependent (outcome) and independent (hypothetical causal conditions) variables, are analysed with the fs/QCA 2.0 software.²⁴

With multiple causation we encounter the situations where the same effect can be produced by two or more alternative sufficient causes. Usually, each one from alternative causes is itself a complex of conditions. Separate conditions, which are requisite as parts in one complex sufficient condition of Y, can be superfluous in building another complex sufficient condition. These are conditions that are neither sufficient nor necessary conditions for Y, while playing a causal role in a certain context: as insufficient (I) but non-redundant parts (N) of an unnecessary (U) but sufficient (S) condition for Y. Therefore, philosophical analysts of causation call such causes INUS conditions (Mackie 1974). If, for instance, in one case Y was produced by the complex of causes (conjuncture) ABC, while in another case by DEF, then each of the components of both conjunctures (A, B, C, and so on) are Y causes in precisely this INUS condition meaning, meanwhile ABC and DEF are causes as sufficient but unnecessary conditions for Y. Whenever Y has two alternative sufficient conditions, we are dealing with multiple causation. Whenever the causal role of each separate component in a complex sufficient condition depends on the presence of the other conditions, we are dealing with conjunctural causality.

The most frequently used version of qualitative comparative analysis is crisp-set analysis, which is suitable in cases where the causes and outcomes are described with dichotomic variables. Because this book has used politomic (4-value) variables to describe the initial conditions of post-communist transformation, multi-value QCA (using TOSMANA software) is most suitable for a systematic analysis of the dependence of the outcomes of post-communist transformation on initial conditions. Performing multi-value QCA with the presently available version of

²³ Another exception is the book written by the group of Slovenian sociologists, who also used fuzzy set QCA (Adam et al. 2005).

²⁴ This can be downloaded for free at <<http://www.u.arizona.edu/~cragin/fsQCA/>> 20.04.2011. Logical foundations of the fuzzy sets QCA are discussed in Ragin (2000).

TOSMANA, the outcome variable must be dichotomic. So, five dichotomic variables will be used to describe the outcomes of post-communist transformation. It is also possible to justify this decision by recalling that the dichotomic classification of the outcomes of post-communist transformation is an old tradition of transitology.

However, first I have to justify the variable value assignments to concrete cases in table 1.2. I must also discuss in greater detail the concepts of the orientation of post-communist transformation and of the economic and political exit from communism. The first concept needs particular attention, because it has not been used in the literature (other than in the Lithuanian) on post-communist transformation. Particular attention must also be paid to the problems of the mode of the transformation of the communist economic system, because the longstanding antithesis of “gradual reforms” and “shock therapy” in the literature does not suffice for an analysis of the actual variety of communist economic transformations. The concept of the mode of political transformation that is used in this book will not require such a detailed analysis, because these are widely used in transitology.

It is also important to discuss the concepts for the description of the outcomes of post-communist transformation, and to justify the subsumptions of concrete cases under these concepts. In doing so, I will delve into the contemporary discussions about the varieties of capitalism. Although I will not use the distinction between liberal market economies and coordinated market economies in the QCA comprising all cases of post-communist transformation, these and other concepts are useful for an in-depth analysis of capitalism in Lithuania and its prospects in the second part of the book. But already in the encompassing QCA analysis in the first part I will accentuate the findings and circumstances that are meaningful to profile the post-communist transformation in Lithuania.

In preparing the ground for an in-depth analysis of post-communist transformation in Lithuania, I will seek answers to the following ten questions in the first part of the book:

- (1) What were the sufficient conditions for a rapid (~10-year) transformation from communism to liberal democratic capitalism?
- (2) What were the causes for the failure of a rapid transformation from communism to liberal democratic capitalism?
- (3) What were the sufficient conditions for a rapid (~10-year) transformation from an economic communist system to REC?
- (4) What were the causes for a failure of a rapid transformation from an economic communist system to REC?
- (5) What were the sufficient conditions for a transformation from an economic communist system to political oligarchic capitalism?

- (6) What were the obstacles for a communist economic system to transform itself into political oligarchic capitalism?
- (7) What were the sufficient conditions for a transformation from an economic communist system to state capitalism?
- (8) What were the obstacles hindering a transformation from an economic communist system to state capitalism?
- (9) What were the sufficient conditions for a rapid transformation from communist authoritarianism to liberal democracy?
- (10) What were the obstacles hindering a transformation from communist authoritarianism to liberal democracy?

Having answered these questions, we will have a good outline for a general theory of post-communist transformation and it is possible to call this theory “strong”. A weak theory limits itself to a generalization of descriptions of empirically observed cases. A good (strong) theory has to be determinate: it has to indicate what the outcomes would have been under different combinations of initial conditions, even ones that have never been observed. It doesn’t matter if this is because they have never found their way into the investigator’s field of observation or because they did not exist before or at this time (although they may exist in the future).²⁵ Empirically observed cases constrain a strong theory, but they do not exhaust it, because a theory is epistemically more valuable when it has something to say about cases that have never before been observed.

I will use the previously mentioned Boolean minimization function to construct this kind of strong theory: I will include empirically unobserved cases in the analysis, and I will systematically check the assumptions made by the software about the outcomes of post-communist transformation in such cases. It needs to be stated that this does not mean that computer software can construct a theory of post-communist transformation on its own. The computer searches out a Boolean formula encompassing both empirically observed and unobserved cases that is maximally elegant – short and concise. In these searches the program can make assumptions about the conceivable cases, which are completely inadequate from both a substantive and a purely formal perspective. It’s important that the program presents in the report of its analysis the assumptions in a separate list, so that they can be subject to further analysis.

The program’s assumptions about empirically unobserved (counterfactual) cases are formally inadequate if the program assumes different dependent variable values for the same combinations of independent variables. In such a case the

²⁵ It can occur that some from the logically or combinatorially possible combinations of conditions are not possible empirically. Strong theory should be able to draw the demarcation line in the possible worlds, or logical space, defined by theory, separating empirically impossible cases from the possible ones from which only a part were, in fact, observed.

program's counterfactual assumptions are logically contradictory. On a substantive basis, the investigator has to decide which of the two contradictory counterfactual assumptions is acceptable, and which one isn't.

However, even in cases where there are no logical contradictions between the program's counterfactual assumptions about the causal conditions of empirically unobserved positive and negative cases, the investigator cannot blindly accept a Boolean formula encompassing empirically observed and unobserved cases proposed by the software. Even in the natural sciences, simplicity does not always coincide with reality – a simpler theory does not always mean true theory. The investigator has to double-check all of the counterfactual assumptions about positive and negative cases made by the program and then decide which of them is more likely. The substantive basis for this decision may be provided by other theories that are better confirmed. Together with other evidence they constitute the researcher's background knowledge that is the basis for his/her judgment.

Of course, such assumptions ultimately remain speculative, so long as they aren't verified with empirical observation. But this doesn't mean we can only accept a theory when all of its assumptions (predictions) about all counterfactually postulated cases have been empirically verified. If there is a "success story" – several of the assumptions have been verified – then it is likely that the remaining assumptions will hold. If a better theory doesn't appear, then it can be accepted and used for not only cognitive, but also practical (e.g. engineering) purposes. In testing scientific theories, it is possible to convert many of the counterfactual cases into empirical ones by creating them artificially under experimental conditions and then observing if a certain case has the outcome that appeared to be most likely from a substantive viewpoint.

As is well known, the possibility of applying the experimental method in the social sciences is quite limited, and in comparative sociology and political science such possibilities are practically non-existent. In order to apply it, one would need to install communist regimes in 47 countries (up to the present, only 17 of a possible 64 possible initial configurations for the exit from communism have been observed). After this, one would need to create combinations of ideological orientation, political and economic modes of exit from communism that did not previously exist, and then observe if the post-communist transformation would conclude according to the assumptions about empirically unobserved paths.

There are two communist countries that still exist: Cuba and (perhaps) North Korea. Sooner or later they will exit communism, and it could happen that the paths of their post-communist transformation will not reprise one of the seventeen that have been observed up to the present. But even if these new paths were to fit one or two of the counterfactual assumptions, there would still not be enough cases to convincingly create a "success story".

However, in seeking a maximally “economic” formulation for a theory of post-communist transformation and in speculating about the counterfactual assumptions that might support it, we are not pursuing an activity that has no added epistemic value. By doing this, we can formulate the theory more accurately and expand its empirical content. This empirical increment consists of its predictions and counterfactual assumptions, which surpass the limits of the set of empirically observed cases. A strong theory is of greater value than a weak one, even if the empirical reality is too thin for it to be verified and the investigator doesn’t have the resources to overcome this limitation by experimental means. No less importantly, I will attempt to make these counterfactual speculations into strictly controlled thought experiments, applying a purpose-built method of counterfactual analysis based on the measurement of Boolean distances between empirically observed and logically possible, but unobserved conditions, and the comparison of the counterfactual cases with the most similar empirically observed cases.

Chapter 4 is devoted to answering questions 1–10, and by so doing it formulates ten “laws” of post-communist transformation. These are generalizations about real and merely assumed scripts of post-communist transformation, disclosing patterns for these scripts. However, first I must provide a more detailed explanation of three variables that are used in the proposed theory. I must also explain their values, the rules for attributing these values in concrete cases, and to substantiate their attribution in 29 empirically observed cases. This is the subject matter of the next two (2–3) chapters.

CHAPTER 2

Orientations and Modes of Post-Communist Transformation

This chapter explains in detail the variables used to describe the initial conditions of post-communist transformation in the cultural, economic and political domains. The variation in the cultural domain is described by the four values of the variable “orientation of post-communist transformation”, explained in the first section. The second section contains the description of the four modes of the economic exit from communism. The concluding third section relates to the survival of authoritarianism, democratic reform from above, revolution from below and “refolution” as the four modes of the political exit from communism. Conceptual analysis is conducted intermittently with the assignment of one of four values of three initial condition variables to 29 empirical cases of post-communist transformation.

2.1. Orientations of the Exit from Communism: Concepts and Cases

In mainstream transitology, the significance of cultural values, ideological visions, social imaginary and popular beliefs as causal factors in post-communist development is heavily underestimated. The cultural and ideological background of economic and political choices matters much more than is usually acknowledged (cp. Lauristin and Vihalemm 2009). I will analytically describe this background, drawing the distinction between 4 orientations of social imaginary just before exit from communism and during the period of the “extraordinary politics” (see Balcerowicz 1995: 265–273), the four orientations being: continuational, restitutive, mimetic and innovative (cp. Šaulauskas 1999).

All four orientations can be detected in the social imaginary of modern or modernizing societies. However, they differ in relative strength, with one or two of them dominant, and the remaining two or three sliding to the background or being suppressed. On the most general level, they simply mean attitudes to the current challenges and opportunities of social change. The substantive content of these orientations depends on what kind of society and which particular point of time is analyzed and, in addition to this, what are the historical archives of the

social imaginary which in their turn are dependent on the vicissitudes of society's history.

For example, continuational orientation has different substance in the late communist and the advanced Western liberal democratic capitalist society because of the difference in the status quo, which the bearers of the continuational social imaginary are anxious to defend and preserve. It is the dominance of the continuational orientation in the social imaginary of the contemporary advanced Western societies that insures them against the possibility of revolutionary change. The reason being that neither populations can imagine, nor counter-elites are able to propose, an inspiring vision of society that would be fundamentally different from what exists already. For example, there is no such period in the past of their respective countries that contemporary Finns or Swedes would consider as a "golden age" harbouring proper social order to be restored, and only a minority of them consider the American version of capitalism and liberal democracy as a superior example to be followed by means of institutional transfer. In the social imaginary of the contemporary advanced Western countries, continuational and innovative currents of social imagination dominate, co-existing in fluctuating proportions.

This may be different in the societies that are still not on the frontier of social change. The dominance of the mimetic orientation in the social imaginary is very common, with power elites and most of the population selecting a foreign country or group of countries as a model. For example, in the late 19th century Japan selected the German empire (1871–1918) as its reference model, and for interwar Baltic countries, Denmark was the reference model. In some cases, social and political forces advocating the "renaissance" of their favourite (mostly mythologized) golden age can become an influential political power, as is the case in some countries of Islamic civilization, where radical islamists consider early Islam polity (Caliphate) as the perfect social order.

These few examples should be sufficient to understand how I will use the concept of the orientations of social imaginary to describe the initial cultural conditions of the post-communist transformation and to analyse their influence on the course of the political and economic change after the exit from communism. Importantly, I do not assume the immutability and even the stability of the social imaginary. It is continuously changing under the influence of new collective experiences, opportunities and challenges. This involves the change both in the relative strength of single orientations and in their substantive content. Contemporary social imaginary of post-communist countries is very much different from what it was 20 years ago.

It may be no easy task to find out which orientation was dominant at the time of the exit from communism in some countries. In certain cases, two or even

more orientations were nearly equally strong in the public discourse and in public opinion. However, even if there is no absolutely dominant orientation, it never occurs that all four would be of equal strength. The proponents of one ideology are the first violins in the public discourse; those favouring another are the second violins; still others are dissidents who interfere noisily, in the hopes of destabilizing the regime (although they end up being silenced and pushed out of the public space in one way or another). I will assume that a specific orientation is dominant if it is a plurality (relative majority) according to representative surveys.

I confess that it can be impractical to make use of this definition, because we may simply lack appropriate survey data about the states of public opinion on the eve or at the very beginning of the exit from communism. Even if the surveys took place, the questions asked were not appropriate to find out the relative importance of the 4 orientations.¹ So another method remains – to estimate their relative importance according to the outcome of the first relatively free election. The victory of the communist, neo-communist or ex-communist party is evidence that continuational orientation was dominant.

However, if anti-communists won, this only means that continuational orientation was not dominant. The question remains – which orientation from the rest – restitutive, mimetic, or innovative – was the strongest? To answer this question, one should use all available quantitative or qualitative data. Some extremely valuable sources here are documents about the ideology of the political forces that won a plurality of votes in the first relatively free election. To use this and other available evidence, the concepts of continuational, restitutive, mimetic, and innovative orientation should be articulated in more detail. Intermittently, I will substantiate the ascriptions of one of these orientations as dominant to the observed cases of post-communist transformation, listed in tables 1.2 and 4.1. This is another task of the present section.

It has already been pointed out (see 1.3) that restitutive and mimetic orientations share a strictly negative valuation of communist past. They differ in conceptions of the ultimate goal of post-communist transformation. In the restitutive orientation, it is the restoration of the pre-communist social order. In some countries there were no restitutionally oriented political forces in 1989–1991, or, alternatively, they were very weak. These were countries which were not modern before communism, or where their modernization was in the beginnings. Communist regimes “turbo-modernized” these countries, destroying or weakening

¹For an inventory of available research see Tóka 2000. Many data sets listed in this inventory are available at the Inter-University Consortium for Political and Social Research website <<http://www.icpsr.umich.edu/icpsrweb/ICPSR/>>. For survey data about post-communist Lithuania, see the website of the Lithuanian Data Archive for Social Sciences and Humanities (LiDA) <http://www.lidata.eu/en/index_search.php>. Both websites accessed on 25.04.2011.

traditional (patriarchal, feudal, semi-feudal) social structures. Hence these are the countries of patrimonial communism.

In Central Asia, restitution would have meant the restoration of social order, grounded in Islamic law. In Russia, it would have meant the restoration of Tsarist autocracy as it was before 1917 or even 1905. Indeed, political forces with such ultimate extremist goals emerged in the course of time. Central Asia is now one of the areas where Islamic fundamentalism (or political Islam) ideas are on the march. However, under the concrete circumstances of 1989–1991, restitution of pre-communism was not an attractive alternative in the countries with no pre-communist modernity. The idea of a return to the status quo before Communism was not able to mobilize broad political support.

This was different in the Baltics and some Central European countries. In the Baltic States, there was a time when a plurality of people considered the interwar time 1918–1940 as a “golden age”. Therefore, I assume that this idea was dominant in the Baltic States for a certain period. The interwar period was greatly idealized here, because for some of the indigene ethnic groups (e.g. Estonians and Latvians), it was the first time in their history that they had had their own nation state. So, in the Baltics the re-establishing of independent states was the paramount goal of the exit from communism. The idea of restitution was the rationale behind the decision of the Estonian and Latvian governments to grant citizenship rights only to persons who, or whose descendants, were citizens of these Baltic States before June 1940 (see Pettai 2004).

Another, very special case of the restitution idea dominant in the social imaginary was Serbia. The military-political elite of this country played a key role in creating Yugoslavia state in 1918. It then worked to transform Yugoslavia into Greater Serbia. As communist Yugoslavia collapsed, Serbian society was consolidated for some time by the political project of a Greater Serbia that would unite, within its borders, all ethnic Serbs and all “historical” Serb lands. So, if in the Baltic States the “golden age” was embodied in the national states of the interwar time, in Serbia this embodiment became the half-mythical empire of Stefan Dušan in the XIV century. To attempt a generalization, restitutive orientation became dominant in some of those countries which were involved in the “triple transition”, solving the problems not only of economic and political reform, but also those of state-making. It was more difficult for restitutional ideology to prevail in those countries which under Communism were already, at least nominally, independent.

In Poland, Hungary and Eastern Germany mimetic orientation was dominant from the very beginnings of transformation. In this transformation ideology, the ultimate goal of transformation is the transfer of economic and political institutions from the West. For the Central European and Baltic countries, there was a fortunate overlap between restitutive and mimetic orientations because of a shared

belonging to Western Christian civilization from medieval times. Therefore, the ultimate goal could be conceived as “return to the West”, melding restitution and emulation.

No such happy coincidence was present in the communist countries with different civilizational identities. For example, a Russian liberal could have described the ultimate goal of the post-communist transformation as enabling Russia to be like an advanced Western country, but it was not possible to imagine this goal as the “return to the West”, as Russia had never been a Western country. Importantly, the more time that elapsed from the communist takeover, the more tension there was between mimetic and restitutive orientation. Russian nationalists make sense of communist transformation by regarding it as the return to pre-Bolshevik Russia. However, this era was imperialist and autocratic, very much different from the advanced Western countries at the end of 20th century. So the goals to restore pre-Bolshevik Russia and to make it like an advanced Western country were incompatible.

In Eastern Germany, mimetic orientation had no competitors, because the majority of former citizens of the German Democratic Republic (GDR) considered as the evident goal of transformation to be the unification with Western Germany (Federal Republic of Germany). This was conceived as key to the solution of all social and economic problems.

The restitutive orientation was rather weak in Poland, because the entrenchment of communism in this country was coincident with some radical changes of its borders. Joseph Stalin moved Poland to the west, annexing its eastern territories. These losses were compensated with former German lands (Silesia, Pomerania, the southern part of Eastern Prussia). In the war years, the Jewish minority was exterminated by Nazis in Poland. In the prewar years, the Jewish community was dominant in the urban population in trade and industry. Under communism, these positions were filled by ethnic Poles coming from the countryside. The restitution would include the reparation of the property rights of the mainly Jewish owners or their descendants in the cities. After this, former German inhabitants of Western and Northern Poland could be expected to claim the restitution of their property rights. Therefore, for the majority of Poles it was difficult to consider the pre-communist status quo as a self-evident idea of what the exit from communism was about. This is why in 1989–1991, there were no strong political forces that proclaimed as their goal the restitution of *Rzeczpospolita II* (Commonwealth II), i.e. interwar Poland. Instead, post-communist Poland was built as *Rzeczpospolita III*, i.e. a new state not grounding its legitimacy in the continuity with the interwar Polish state.

The restitutive orientation was much more stronger in Hungary. But there were some important obstacles. The coming into force of the restitutive orienta-

tion in Hungary was hampered by political and economic traits held over the interwar years – authoritarian politics and large scale land ownership by the aristocracy. Such was the patrimony from the pre-communist era that no political force wanted to take over. Besides that, in the historical memory of many Hungarians the country's golden age was the 1866–1918 period, not the period between the two world wars. As a member of the monarchical Austro-Hungarian confederation, Hungary's borders matched those of the medieval Kingdom of Hungary. But Hungary's geopolitical situation did not open the opportunities for the restitution of a Greater Hungary similar to the one which was (mistakenly) perceived by the plurality of Serbs at the time of the collapse of communism in Yugoslavia.

The more a country was advanced along the modernization pathway in the pre-communist times, the more was the overlap between restitutive and mimetic orientations. There was almost perfect overlap among these orientations in the case of the Czech Republic, which was already a completely modern liberal democratic state before World War II. So there was no incompatibility between the goals to restore the pre-communist “golden age” and to make it like advanced Western countries. The last tensions between both orientations vanished after the “velvet divorce” between the Czech Republic and Slovakia.

The situation in Slovakia was different. After the “velvet divorce”, it balanced on the edge which separated liberal democracy from delegative or populist democracy (in 1994–1999, when Vladimir Mečiar was the country's prime minister). But the Slovakian state of 1938–1944 – a *de facto* protectorate of Hitler – was not a political or economic development model that could compete with the prospect of joining the European Union.

The state of affairs in Slovakia was rather similar to that of Croatia, where strong pro-Western mimetic orientation competed with restitutive orientation. The latter orientation was compromised by its connection to the Croatian state in 1941–45, which (like Slovakia) was allied with Nazi Germany. Restitutive orientation was strong while Croatia was at war with Serbian nationalists in 1991–1995. While the ultimate goal of Serbian restorationists was Greater Serbia, including not only the bulk of Bosnia and Herzegovina, but also parts of Croatia, their Croatian counterparts and adversaries dreamt about Greater Croatia, which would expand its borders by annexing the part of Bosnia and Herzegovina populated by Croats. Nevertheless, mimetic orientation was never suppressed, surging again to dominance after the death of the first president of the newly independent Croatia, Franjo Tuđman in 1999.

Russia was also a very special case because of its size, social-economic and cultural heterogeneity. It still displays a territorial structure peculiar to classic empires. One can distinguish between the Russian periphery and the exploitative imperial centre. The large urban metropolitan areas of the Russian empire were the

megapolises Moscow and Saint-Petersburg. The cultural ideological orientations of their inhabitants had differed from the mentality of the provincial population from ancient times. Although metropolitans are in the minority among the Russian population, they decide upon the fate of Russia at critical times, because they include Russia's economic, political, and cultural elite. During the time of Gorbachev's perestroika, mimetic orientation became dominant in Russian metropole. However, the periphery remained continuationally oriented. This divide survived until the end of the last decade of the 20th century. After the Russian economic crisis in 1998, restitutionalism and continuationism overshadowed mimetic orientation.

At the same time, in Bulgaria and Romania, mimetic orientation scored a victory against the continuation orientation that had been, hitherto, dominant. In the Baltic States, mimetic orientation triumphed over restorationism after 1993, when the Copenhagen summit of EU state leaders opened for Baltic and Central European states prospect to join the EU. This triumph was easy, because since the beginning of transition, many had believed that the point of exit from communism was to make all things "like in the West". The advice of experts of Western international financial institutions about "best practices", how to build democracy, and capitalism were heeded and readily implemented.

The dominant viewpoint among this group of experts was that the best way into a free market economy was the mode of economic reform figuratively named "shock therapy". The prototype was the economic reforms in Chile after the toppling of the socialist government of Salvador Allende. These reforms were implemented in 1970s by the band of economists famously labelled the "Chicago boys". The reason for this title was their shared education at Chicago University, where their thinking had been shaped by Milton Friedman (1912–2006) who consistently promoted the principles of economic liberalism.

Somewhat later, similar reforms were implemented in other countries of Latin America. In November 1989 – just on the eve of the dramatic events in Central and Eastern Europe – experts from the U.S. government and international financial institutions convened for a conference in Washington. At this meeting, the lessons of Latin American reforms were put together into a collection of recipes that one of the participants (John Williamson) called the Washington Consensus (see Marangos 2007). This is neoliberal pendant to the Moscow Consensus that was proclaimed in November 1957 by leaders of the communist parties who had convened to celebrate the 40th anniversary of the "Great October Socialist Revolution". The Moscow Consensus was how to build socialism, whereas the Washington Consensus was about how to rebuild capitalism.

This consensus became a program of economic reforms obligatory for post-communist countries. After the collapse of communism, many of these countries

had to cope with macroeconomic instability. They were not able to make ends meet without the financial assistance of the West. However, this help was provided conditionally – on the following of the precepts of the Washington Consensus. So the post-communist transformation of most of the former countries of Soviet and Yugoslavian communism was mimetic or emulative not only because its ultimate goal was to create a political economic system as closely as possibly emulating that in the advanced West. It was mimetic also because reforms were implemented according to precepts already tested during economic reforms in former Third world countries (first of all, in Latin America). The irony of history was perfect, because the primary purpose of these precepts was to solve the economic problems caused by the transfer of the experiences of the Soviet-style modernization fixed on forced industrialization and import-substitution. Now the same medication was prescribed as remedy for the Soviet prototype of such industrialization and its clones in Central and Eastern Europe.

Innovative orientation differed from mimetic in terms of the critical attitude to the uniform recipes for the exit from communism that had been prescribed by the neoliberal experts and employed by international financial institutions. This orientation was marked by the search for local, new and original solutions for transformation problems. On a more fundamental level, the culture and social reality of the, allegedly, perfect “old” West may be drawn into doubt. The critical attitude to Western individualism can serve as an example (in China, “Asian” collectivist communal values are proclaimed as an alternative in a self-conscious way).

However, ten years hadn’t passed since the anti-communist revolutions of 1989–1991 before some critical observers started to complain about their intellectual sterility. “It is as if the sterility of communism has been matched by the sterility of post-communism. Those revolutions turned out to lack—in Hannah Arendt’s words—the ‘pathos of novelty’ and the expectation that new ideas and new energy, capable of changing the world, would come from the East quickly faded” (Smolar and Potocka 2001: 9).² Such complaints are exaggerations, if they are grounded in the implicit or explicit comparison between the revolutions of 1789 and those of 1989. In 1789, new political community values were proclaimed: liberty, equality, and fraternity. The reformers and revolutionaries of 1989 did not invent and did not proclaim any new values.

However, social innovation does not necessarily mean new values or ideologies. It may consist in the “institutional entrepreneurship” (see Crouch 2005) – the creation of new economic and political institutions that, even better than their already existing pendants in Western countries, embody the traditional values of liberal democracy. With regards to economic institutions, innovative orientation

² See also Kumar 2001: 40–41; 194–214.

means the search for new viable models of rational entrepreneurial capitalism. The viability denotes the capability for sustained rapid economic growth and international competitiveness that is ensured not by wage cuts, but by technological and organizational innovation. Institutional innovation is possible both at the macroeconomic and at the microeconomic level. In this latter case it signifies the invention of new corporate governance and industrial relations forms, which can efficiently solve the principal-agent problem, increase the loyalty of the employees and foster the competitiveness of firms.

Innovation in the building of the post-communist political system means the invention of new forms of political organisation, enabling broader citizen participation in the managing of public affairs and the higher calibre of democracy. One of the most authoritative contemporary democracy theorists is Robert Dahl, who authors the most frequently cited definition of liberal democracy (see 3.4). He describes actual liberal democracies as “polyarchies”, and not as true democracies. According to Dahl, full-blooded democracy includes so-called “industrial democracy”, which is a rare bird in the contemporary West. This is the participation of employees in making decisions, sharing responsibility and authority in the workplace. Production democracy matters because an average adult person spends up to one-third of their life at the workplace (see Dahl 1989).

For most citizens of contemporary Western democratic states, democratic participation is limited to voting in elections that take place every 4 or 5 years. So, democracy theorists are engaged in a lively discussion about the new more advanced forms of democracy called “participative”, “deliberative”, “electronic” and so on. Many dissidents who challenged communist power were perfectly conscious of these democracy deficits, envisioning some “better democracy” as an alternative not just to the communist regime, but also to “really existing” liberal democracy.

At the very least, even if the eyes were not set on better (than really existing) capitalism or better democracy, innovative orientation could find its practical expression in the inventive or creative approach to economic reforms that would allow the arrival at the very ordinary capitalism or democracy with minimal losses of economic and social welfare. This is only possible if the local conditions are paid as close consideration to as possible. Two countries – China and Vietnam – managed to exit communism without the transformational recession that lasted, in some countries, up to ten years and ushered in social and economic catastrophe. It is difficult to explain the success of China and Vietnam without assuming innovative orientation, because the success was completely unexpected to the experts of the International Monetary Fund, World Bank and other international financial institutions who ubiquitously enforced standard recipes of “shock therapy”. There was almost nothing in the mode of reforms in China and Vietnam, that did not

rebel against the wisdom of the mainstream economic experts employed by these institutions (see Rodrik 2007: 22–25).

Importantly, institutional and cultural innovations while leaving communism were expected not only by local anti-communist dissidents, but also by some Western intellectuals and experts. They shared the hope that post-communist transformation would be a creative process, and not only the late reception of the institutions and social action patterns that had taken root in Western Europe some 200 years before. The most audacious hopes were about the countries of Central Europe. These dreams were about a social experiment laboratory where institutions and values would be created that would provide (at the very least) this region with its own civilizational profile, even if they would not be of universal significance (see e.g. Kumar 2001).

Perhaps the strongest nourishment for such hopes was provided by the idea of “civil society” and related social practices of the *Solidarność* trade union movement in Poland 1980–1981. After 1989, Prague, Warsaw and Budapest became for some time the Mecca of those Western intellectuals and researchers who expected social innovations. However strange it may appear for a Central European indigene, there were many enthusiasts who asked: “is Central Europe the future of the West?” (Eyal et al. 1998: 163).

By the end of the first transformation decade the failure of these hopes was obvious. Slovenia was the only country displaying effective innovative orientation in the practices and outcomes of economic reform. In reforming its political system, an original version of the neocorporatism was created. Because of these unique features, Slovenia’s case is discussed in more depth in chapter 6, which also includes a comparison of Slovenia with Estonia and Lithuania.

Besides Slovenia, innovative orientation transpires in China’s and Vietnam’s exit from communism. However, it is manifested not in the creation of better democracy or better capitalism. China and Vietnam are ruled by the parties that nominally remain communist. Up to this time, political reforms are limited to allowing several candidates to stand for office – although they all represent the same ruling (communist) party – as well as the right to elect the low level communist party’s leaders for the rank-and-file communists. The proclaimed goal of economic reforms is not exit from communism, but the building of a “socialist market economy” and the refinement of “socialist democracy”.

However, in terms of their real effects, reforms replaced planned administrative economy with market economy, where most of the means of production are privately owned. Based on the Marxist-Leninist understanding of capitalism, such an economic system is indeed capitalism. Because this result was achieved without the vision of better capitalism, it is possible to speak about innovation only at the level of the institutional techniques of market reforms. The Chinese

exit from communism did not give rise to new political or social ideas, or to a new vision of the public good. In these respects, it was just as intellectually sterile as post-communism was in Central and Eastern Europe.

Most numerous are countries where continuational orientation prevailed at the point of exit from communism. These are Central Asia countries (Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan), Mongolia, some former republics of the USSR in its European part (Belarus, Moldova, Ukraine), and Southeastern Europe countries (Bulgaria, Romania, Macedonia, Albania). Continuational orientation prevailed in the countries which were not modern at the time of communist takeover or where their grip on power lasted for more than two generations. It was strongest, where both of these two conditions were in place. Where communism lasted for more than two generations, there remained almost no people that were not impregnated by the communist world view or way of thinking, at least in some part.

The generation which was between the ages 16–30 at the time when the communist-initiated economic and social change took place was most susceptible to communist indoctrination. Rapid social change propelled by the “building socialism” provided the opportunity of education and vertical mobility for lots of young people (especially for those from the lower class and the countryside). In these countries there was no (or none that had survived) “old intelligentsia” preserving values of the pre-communist time. Under changed circumstances, this group would become the milieu or carrier for restorational and imitational discourse.

Despite the discontent with life under communism, for the majority of the population the source of this discontent was not the nostalgia for the “good old” pre-communist times (as was the case in the restitutionally oriented countries), nor was it the longing for private entrepreneurship and personally responsible way of life. Few had any real idea about the contemporary West. Communist propaganda focused on, among other things, exploitation, unemployment, poverty, militarism and racism to make the Western style of life look unattractive, and this sustained mind manipulation could hardly remain uniformly ineffective. Instead, the source of dissatisfaction was the discrepancy between daily life and socialist values. Those who internalized these values, assumed egalitarianism and the state’s responsibility for the welfare of its loyal subordinates as self-evident axioms. The nomenklatura’s perquisites – the right to live in bigger flats, holiday in special resorts, and shop in stores offering a wider selection of products – caused huge resentment.

And so, in most communist countries the majority of the population was discontent not with socialism as such, but with deviations of the “really existing” socialism from socialist ideals. For people who had absorbed socialist values, “market reforms” were associated first and foremost with store shelves filled with food products, not with unemployment, competition, and personal responsibility.

Alberto Alesina and Nicola Fuchs-Schuendeln who compared differences in the values of the population of Eastern and Western Germany and investigated the change in these values, predict that these differences will vanish only after two generations has elapsed (Alesina and Fuchs-Schuendeln 2007).

In most countries with dominant continuational orientation the post-communist transformation started not because of internal causes, but due to the international situation. At that time there was no influential anti-communist opposition and no intellectual capital to design the original reforms. In these countries, the ex-communists preserved their grip on power, and they were neither able, nor interested in finding innovative ways of how to exit from the impasse of communism. They cared most about how to preserve their privileged position under the new political economic system in the making.

However, continuational orientation does not preclude market reforms. But, under its domination they are implemented “from the top”, under pressure of circumstances and international organisations and under the threat of financial assistance withdrawal. Not supported from below, they mostly degenerated into partial reforms (see next section).

2.2. Economic Modes of the Exit from Communism: Concepts and Cases

At the beginning of the market transformation, supporters and observers divided into two camps: the revolutionaries or radicals (“shock therapy” supporters) and gradualists.³ The former prevailed in Western financial institutions, overseeing the implementation of market reforms. Unlike neoliberal doctors of shock therapy, who were committed to the ideal liberal market economy (see 3.1), many gradualists were of social-democratic persuasion. Their political economic ideal was a social market economy or social capitalism which is a version of REC, characteristic of many European countries.

In the early 20th century, Social Democrats and Communists went different ways, disagreeing over how to build socialism (at this time, Social Democrats did not reject it as programming end). Communists (Bolsheviks) were revolutionaries and Social Democrats were the reformists (or social-reformists) due to the fact that they were in favour of a gradual transition to socialism through piecemeal reforms. During the collapse of socialism, neoliberals took over the role of the Bolsheviks, while Social Democrats remained in their usual role as reformists.

Shock therapy advocates were in favour of simultaneous liberalization, stabilization and privatization, implemented all at maximum speed. Gradualists

³ For gradualist views see Stiglitz 2002; Amsden et al. 1994; Pereira et al. 1993; Poznanski 1995 and 1996. Anders Aslund, Jeffrey Sachs, Leszek Balcerowicz are the most famous proponents of shock therapy.

advocated sequential reforms starting with the creation of an institutional framework, which was necessary for the functioning of a free market economy. This framework consists of legal codes regulating market relations in various domains and corresponding institutions (e.g. commercial banks, stock exchanges, insurance companies), which were absent in the administrative planned economies. They considered the creation or restoration of these market institutions as the main condition for the transition's success. Gradualists reasoned that without the possibility to calculate risk, no rational economic activity is possible, and so no efficient broad scale markets can emerge. Market institutions jointly with strong rational bureaucratic (Weberian) state which supports and maintains them are necessary to transform uncertainty into calculable risk, and so to launch REC. Advocates of shock therapy believed that large efficient markets would arise spontaneously: "Markets spring up as soon as central planning bureaucrats vacate the field" (Sachs 1994: xii). Their assumption was that markets are the natural order of human interaction, not a social and cultural construction.

Retrospectively evaluating the course of reforms, gradualists assert that post-communist economic recession was inevitable, but it would have been milder in the countries that would have implemented gradual reforms instead of shock therapy. This process would have commenced with macroeconomic stabilization and the creation of market institutions, then continued with gradual liberalization and small privatization, and then concluded with the privatization of big enterprises. Quite oppositely, former shock therapists explain the failures of post-communist transformation by gradual reforms.

I will not join this discussion, because the participants share the wrong assumption that there were only two exit modes. Instead, I will discuss post-communist countries case by case, asking about their economic mode of exit from communism and then proceed to expand binary typology with more modes of economic transformation.

So which were the cases of the gradualist, and which were the cases of shock therapy market reform according to established wisdom? In Russia, market reforms started with liberalization, supplemented immediately with large scale "voucher" privatization. There were protracted convulsions in an attempt at stabilization, until the final crisis in 1998. Macroeconomic stability was only achieved in about the year 2000. We will classify the Russian exit from communism as shock therapy that failed.

Shock therapy was also implemented in all Baltic States. The most consistent and successful shock therapy was implemented in Estonia, with the focus on stabilization. In Lithuania, the early focus was on privatization, and therefore, stabilization was postponed. Most analysts consider the Czech Republic and Poland as two other unambiguous shock therapy cases, implemented by Václav Klaus and

Leszek Balcerowicz. However, in Poland, jointly with price liberalization, wages were frozen. Enterprises increasing wages more than allowed by government were fined. So it was partial liberalization, because it did not include prices of labour (wages). Most importantly, large and medium size state-owned enterprises were privatized at a rather late stage.

Early privatization was blocked in Poland by the strong resistance of workers (firstly by those affiliated with *Solidarność*) to the government's attempt to shed any responsibility for the fate of enterprises. Sustained privatization of large enterprises was started later under the ex-communist government. Its minister of finance Grzegorz Kołodko, another famous Polish analyst and policy maker of post-communist economic transformation, was very critical about his predecessor Leszek Balcerowicz for "shock without therapy". It is small wonder, that, in Kołodko's opinion, Poland was reformed by gradual reforms, not by shock therapy (see Kołodko 2000).

Comparing market reforms not according to their pace, but to their sequence, Polish and Lithuanian scripts of reforms were the antithesis of each other. Most probably, the thinking of Lithuanian reform architects was influenced most significantly by reminiscences of the Lithuanian countryside economy of the pre-kolkhoz time, and the schemes of a Marxist-Leninist political economy turned upside. According to these schemes, communism, first of all, means the abolishment of private property for the means of production. Therefore, Lithuanian reformers considered privatization of state and especially kolkhoz property as the gateway key to a market economy. They believed that this was also the best way to destroy the economic foundation of the nomenklatura power base. In actual fact the nomenklatura's members used the opportunities of privatization most effectively.

With regard to the market reforms in the Czech Republic under Václav Klaus, contemporary neoliberal observers considered these reforms to be more progressive than those in Poland, because the Czechs did not postpone the privatization as the Poles had. To implement mass privatization without any delay, they used a "voucher method", setting an example for Lithuanians and Russians to emulate. Klaus was in a rather favourable position, because Czechoslovakia (in contrast to Poland and Russia) was in macroeconomic equilibrium and was not burdened by foreign debt. So shock therapy in Czech Republic could focus on privatization and liberalization. As a result, the liberalization shock was rather mild, and was followed with a relatively small decline in GDP. Slovakia implemented market reforms at a slower pace (one of the reasons for the "velvet divorce" was disagreement about the speed of reform), and can therefore be considered as a case in gradual reforms.

However, the purest case of shock theory is East Germany (former German Democratic Republic). "Only in East Germany was a radical strategy of institutional

transformation consistently implemented” (Pickel and Wiesenthal 1997: 17). After German unification, the economy of Eastern Germany was simply inserted into the Western German market, which was part of the greater European market. The outcome of this “blitz” liberalization was an economic catastrophe in East Germany. Two years after unification, industry production had melted down to 27% of its 1989 size, and unemployment in many regions had increased by up to 30%, just as it was on the eve of Hitler’s coming to power (Windolf 2001: 396).

Despite the very favourable external and internal conditions and “shock therapy” (or rather because of it), the transformation recession in East Germany was deeper than in any other Central European country and even deeper than in Russia. Of course, the real income of the majority of the East German population did not decline, because even many of the unemployed could afford more consumption than before unification, due to generous unemployment benefits. The cost of the East German economic catastrophe was paid for by the West German population, who accepted tax increases. Thanks to German solidarity, by the end of the first decade the wounds of shock therapy were already healed, and East Germany was an integral part in the economic body of the coordinated market economy type (see 3.1). Otherwise, East Germany could have been another case on the shock therapy’s failures list.

For cases of the exit from communist economy in the gradual incremental mode, there is broad consensus in literature about Hungary and Slovenia as clear instances. From communist times, Hungary inherited serious macroeconomic instabilities. But they pale when compared with Poland’s problems, and were survived without drastic budget cuts and devaluation. Slovenia’s key to economic macrostability was the early introduction of the national currency.

Importantly, Hungary’s and Slovenia’s legacy from communist times was not all that bad. They inherited basic market economy institutions established at the time of the Yugoslav “worker’s self-management” socialism or János Kádár moderate market reforms. They had valuable assets in the form of managers with experience in how to work in Western markets. An important basis to classify both cases as gradualism is the strategy of privatization. Hungary sold most state-owned property for foreign currency over a prolonged period. In Slovenia, the original method of privatization was created and applied, providing another reason to ascribe innovation orientation to its exit from the impasse of communism (more on this in chapter 6).

Both in Hungary and Slovenia transformation recession was rather shallow, and the social cost of transition was small. However, in these respects China and Vietnam have no rivals. They are the purest cases of gradual incremental reforms. Their exit from communism fits the criterion of Pareto optimality. Nobody suffered the decrease of economic welfare. All won, but some more, and others less.

It so happened because there was no transformation recession. In the countries of the former Soviet and Yugoslav communism, the graphs of how the values of main macroeconomic indicators changed over the course of time look like the letters J, U or L. In the first two cases, the economy slid as if into the pit of varying depth, and only then relatively fast economic growth started. Depending on the recession depth, it took from 9 to 15 years for GDP to recover to the level of the last year of communism. J and U types of macroeconomic dynamics are peculiar to countries deemed as achievers of post-communist transformation or at the very least its successful cases.⁴

In the many other post-communist countries (primarily, Russia), post-communist GDP change looked more like the letter L. After the beginning of market reforms, GDP melted down and remained at a low level during the first transformation decade. In these countries, the macroeconomic situation improved only after economic dislocations in 1997–1998, which were recorded in the history textbooks as the Russian crisis and the Asian crisis. Importantly, China was successful in escaping the Asian crisis, and its rate of economic growth remains unrivalled by enduring so long over the last three decades (8–10% yearly growth of GDP).

So China's exit from the communist economic system is perhaps the most impressive case of all the successful gradual market reforms. It is worth pointing out, that a considerable number of initiatives started from below, as single individuals or their groups, the lowest level "cadres" (administrators) played the role of "institutional entrepreneurs", securing the support of local authorities. The central authorities did not have any grand consistent reform plan. Their sole "merit" was their ability to grant permission to implement these innovations in some locations. If they worked, the permission was extended to apply them across the entire province or even all the country.

Very importantly, there was no practice to set from the top an obligatory institutional pattern, to establish the timetable for its implementation and to launch the local cadre competition to find who will run the first. This practice was typical for Soviet communism and even survived during the first years of restored independent Lithuania.⁵ One of China's leaders figuratively described the Chinese reform strategy, comparing reforms to wading across a frigid mountain stream, with

⁴ Of course, the difference in the shape of these graphs is time-relative. It is most clearly visible when the time perspective is limited to the first decade. All economic recession ends sooner or later. During the second post-communist decade, economic growth was observable in all post-communist countries.

⁵ In 1991–1992 local district administrations under Reform Movement of Lithuania (*Sąjūdis*), competed to see who would be the first in achieving the "transition targets" in privatization and de-communization. The authorities of Šilalė district earned much of Vytautas Landsbergis (the leader of Lithuania in 1990–1992) praise after proudly reporting to be the first to destroy the last kolkhoz in their district.

one foot balanced precariously on a stepping stone while the other feels around for the next stone.

Chinese exit from communism started with the dissolution of communes – China's *kolkhozes*. The strong growth of agricultural production followed. The effect was an increase in the consumption and welfare of the rural (because of the increase in farmers' income) and urban populations (because of an increase in food supply). However, agriculture was not able to absorb all surplus labour force in the countryside. After the liquidation of the communes, the next booster rocket, and the one that finally launched China into the orbit of the fast-growing market economies, was the sudden rise of township and village owned enterprises (TVE). This is probably the best example of the aforementioned "bottom-up" type of institutional innovation. The nominal owners of TVEs were the former communes and their offshoots, which, after de-collectivization, were no longer producers of agricultural products.

According to econometric research, TVE's by efficiency do not yield to private sector enterprises and surpass those of the state sector (under the control of the central administration in Peking). Some analysts who discuss these findings even assert that the experiences with TVE (if compared with ways of reform in the post-soviet world) provide the proof that "privatization need not be the sole path to economic growth in reforming communist systems – and, in any event, it has nowhere yielded results approaching those obtained in China" (Oi 1999: 10).

For symbolic conclusion data in building REC in China, one can consider 2001, when China joined the World Trade Organisation⁶, or 2002, when the Communist Party of China opened its ranks for capitalists (i.e. the class enemy), and proclaimed, in 2004, private property sacred and untouchable (see Wilson 2007: 239). Of course, this is evidence for such deep terminal erosion of communist ideology that it may be compared with the hypothetical decision of Nazis to allow party membership for Jews. Before that, in 1997 nascent Chinese capitalism successfully passed the Schmittean test of extreme situation⁷, almost unscathed by the Asian crisis that ravaged its neighbours in this year.

However, the dichotomy of gradual reforms and shock therapy is not adequate to cover all range of the modes of economic exit from communism. So one cannot apply any of these concepts to Belarus, Turkmenistan or Uzbekistan. The governments of these "order states" (see Iwasaki 2004) concentrated their efforts on upholding macroeconomic stability. Internal liberalization was only limited, because a significant proportion of prices remained under state control after the first transformation decade. The liberalization of foreign trade was even more limi-

⁶ Vietnam seconded in 2007.

⁷ See 7.4, where this concept is explained in more detail before application for another purpose.

ted, and some countries (primarily, Turkmenistan) preserved a de facto monopoly on foreign trade. The state preserved dominant position in the economy, because there was no privatization of the banking sector and no privatization of large or even medium size industrial enterprises. In Belarus, even the kolkhozes survived.

However, there is no basis for the claim that no market reforms were implemented in these countries. They certainly were implemented; but they were minimal. Nevertheless, they were sufficient to dissolve the “classical” (as defined by János Kornai) communist economic system (see 1.2; Kornai 1992: 359–380) and to replace it with another one. Planned economies no longer exist: five-years, or even one year plans are no longer designed and implemented. Most importantly, private economic entrepreneurship is legal. This is an essential difference from state socialism, when it was criminally prosecuted (as “speculation”). Also state-owned enterprises are working under market (albeit a distorted one) conditions and compete for profits, instead of fulfilling planned tasks.⁸

In Kazakhstan, Tajikistan, Armenia, Georgia, Azerbaijan, Ukraine, and Moldova, and also in Bulgaria and Romania the bulk of state-owned enterprises were privatized. The majority of internal market prices were liberalized, and the state let loose its grip on foreign trade and currency exchange. In some of these countries (Tajikistan, Georgia, Armenia, Azerbaijan, Moldova and Serbia), intra- and interstate wars were major influences on the course of market reforms. When at war, states used extraordinary means for economy regulation and mobilization. Money printing to provide for war expenses led to hyperinflation.

In some countries (Bulgaria, Romania), political forces remained in power who lacked the political will and intellectual capital for a consistent reform policy. In many former Soviet republics, reforms only seriously started after Russia (in 1994) excluded them from the rouble zone. This action deprived them of the possibility to finance increasing budget deficits by inflationary emission. In addition, they were asked by Russia to pay for oil and gas at prices close to world market levels. These are all cases of the economic exit from communism that are difficult to subsume to the concepts of shock therapy or gradual reform. In these countries, much more market reforms were implemented than in those classified as cases of minimal market reform. However, these reforms cannot be subsumed neither to the concept of shock therapy, nor to that of gradual reform. Not to leave them conceptually homeless (“unidentified type of market reform?”), I will classify them as cases of “partial market” reforms, borrowing the term and partly the idea from Joel S. Hellman (1998; see also 1.3).

The distinctive feature of partial reforms is the lack of effort at immediate macroeconomic stabilization that would reduce the yearly inflation to some 14–15%

⁸ I will come back to state capitalism in 3.3.

(not necessarily to 0%, as some neoliberal experts have demanded). Under both shock therapy and gradual reforms, such effort happens near to the exit from communism entrance point. Under partial reforms it is at the distant endpoint. Governments of partially reforming countries self-consciously accept over three-digits yearly inflation as more or less a normal way of life.

Partial reforms start with internal liberalization. However, external liberalization is limited. For significant commodities part, the regulation and the licensing of foreign trade remains. This offers the opportunity for the well-connected rent-seeking entrepreneurs to gain riches for themselves very fast, just by getting the necessary permits from corrupt state officials. They become the early winners of the market reforms. Besides the businessmen who received exclusive export/import permits and quotas, other early winners included those who owned firms providing intermediation services for the firms remaining in the state ownership, or were able to get credits from state banks. Under hyperinflation, these credits were donations.

Differently from gradual reforms (but not much different from shock therapy), privatization took place without first putting the framework of market institutions firmly in place. Implemented under hyperinflation, mass privatization favoured the early winners again. Using early windfall profits from successful rent-seeking, especially free grants (nominally credits) from state-owned banks, they managed to become owners of state-owned enterprises that were privatized en masse. Most of them were interesting for early winners only as an object of asset stripping. They were destroyed, becoming victims of “uncreative destruction”. The serious effort at macroeconomic stabilization took place only after no more attractive privatization objects remained.

When exit from communist economic system goes into this mode, only a small minority of the population wins, while the vast majority loses, and the plurality is pauperized. This is why the designation “partial” for this type of market reforms fits nicely. As matter of fact, a large majority won nothing economically from market transformation during the first decade. It was the same for the plurality of these losers also during the second decade. Many of them simply did not live long enough to be compensated for their losses, at least in part.

Where shock therapy exit from communism succeeded (where it failed, there were no difference with the outcomes of partial reforms), a large redistribution of wealth also took place. But transformational recession did not last long, and only a minority were impoverished. After the economy started to grow again, junior losers got ample opportunity for a fresh start. Seniors losers were compensated with the opportunity to retire (see Vanhuyse 2006). In some partial reform states, early retirements were also offered in an attempt to cope with the employment-destructive effects of market reforms.

However, retirees welfare was destroyed in these countries by inflation and payment arrears. Early taming of inflation in the incremental reforms and successful shock therapy countries helped to preserve, and then to increase the purchasing power of retirees. Under a much more rich (than in socialism times) supply of consumption commodities on the market, this was at least partial compensation for the losses in economic welfare of that part of the population that had suffered most (retirees and ageing workers). The transition to capitalism does not lead to the impoverishment of the population's majority.

The demands of social justice were taken, perhaps most fully, into account in the countries of the successful gradual exit from communism. As already mentioned, there were no losers in China and Vietnam. Of course, economic inequality tremendously increased, but this was because some winners benefited more than others. There were a few losers in the European countries of successful gradual market reform (in Slovenia, to a lesser extent in Hungary and Slovakia), because privatization policies here did not allow for much redistribution of wealth.

There were a few losers also in the countries of minimal market reforms. However, there were also a few winners. They were much more numerous in the countries that exited communism in other modes, including mostly well-educated young people in metropolitan cities. Among this group, the youngest members of the Communist Party nomenklatura fared best.

So my main point is that it is possible to differentiate between the modes of the economic transformation in a finer way, by taking into account the distributional and redistributive aspects of market reforms. In his, justifiably, widely acclaimed paper J. S. Hellman provides a brilliant defining picture of partial reforms. However, he did not make the distinction between partial and gradual reforms. Thus, he suggested that the only alternative to partial reforms is shock therapy. Their alleged merit being greater speed, providing for early winners lesser time for seeking and finding where to appropriate rents.

However, the similarity between partial and gradual reform is only superficial. It is not speed, but reform consistency (a go-go versus stop-go pattern) and their sequencing, which matters. Opportunities for rent-seeking early winners are conditional not on low speed, but on the protracted inflation and the weakness of civil society and also the absence of strong free mass media and vigorous daily democratic politics. Gradual incremental reforms are no less radical than shock therapy, even if they take more time to implement, because all reforms to launch rational entrepreneurial capitalism are implemented, only over a longer time. So both gradual and shock therapy reforms share the go-go pattern, differing in their pace (which is of lesser importance) and sequence (which is the difference that really matters). Partial reforms are partial because only part of the market reforms are implemented and the state is captured by early winners, or they are

implemented in the stop-go fashion, and therefore they become not-impartial in their distributive consequences.

In discriminating between post-communist countries which were successful in building REC during the first post-communist decade and those which were not, one is helped by the ratings published by the experts of the European Bank for Reconstruction and Development (EBRD). They grade post-communist countries each year, by assessing 9 aspects of market reforms⁹:

- (1) Large scale privatization;
- (2) Small scale privatization;
- (3) Enterprise restructuring (whether there are hard budget constraints, whether the insolvency procedure is applied to inefficiently working enterprises);
- (4) Price liberalization (how many prices are state regulated);
- (5) Foreign trade and foreign currency exchange liberalization;
- (6) Competition policy (whether competition is promoted, and anti-monopolistic policies are implemented);
- (7) Banking reform and interest rate liberalization;
- (8) Non-bank financial institutions (formation of securities exchanges, emergence of non-bank financial institutions and associated regulatory framework);
- (9) Infrastructure reform.

The minimum score for reforms in each from these 9 areas is 1, and the maximum score is 4.33 (or 4+). A maximal score means that in this area the country is not different from the most advanced or old market economies. There wasn't one post-communist country that received nine 4+ scores after the first post-communist decade. There were no such countries even by the end of the second decade (in 2000).¹⁰

Therefore, it is not realistic to ask from the countries that succeeded in building REC by the end of the first decade maximal rating in all areas of reform. The most reasonable choice is to use as a benchmark the ratings of those countries that gained accession to the EU in 2004. Then, one should ask for scores not less than 3 in at least six areas after the first ten years of post-communist transformation. This threshold transpires, after we look through the list, how many grades not less than 3 the future EU first wave accession countries had collected by the end of the first post-communist decade.

⁹ This market reforms evaluation system was originally developed in the 1994 EBRD Transition Report, and has been refined and amended in subsequent reports. For currently used list of transition indicators and their methodology see <http://www.ebrd.com/pages/research/analysis/surveys/ti_methodology.shtml> 24.04.2011.

¹⁰ See <<http://www.ebrd.com/russian/downloads/research/economics/tic.xls>> 24.04.2011.

The market reform achievements of countries that finished their first post-communist decade in 1999, were as follows in this year (to repeat, the digit means number of EBRD ratings not less than 3): Bulgaria 5, Czech Republic 8, Poland 8, Romania 3, Slovakia 6, Hungary 9. The achievements of the former USSR and Yugoslav republics in 2001¹¹: Armenia 4, Azerbaijan 3, Belarus 0, Estonia 9, Georgia 4, Kazakhstan 4, Kyrgyzstan 4, Croatia 5, Latvia 6, Lithuania 7, Moldova 4, Mongolia 3, Serbia 2, Slovenia 6, Tajikistan 3, Turkmenistan 0, Ukraine 4, Uzbekistan 1. For Albania, where the first post-communist decade ended in 2000, in this year market reforms were graded with 3 or more in 4 areas.

About the countries that did not receive at least three ratings not less than 3 scores, I will conclude that they implemented minimal market reforms (Belarus, Turkmenistan, and Uzbekistan). Unfortunately, EBRD ratings are of little help in establishing criteria to distinguish between the countries that have implemented gradual incremental reforms and shock therapy; and distinguishing both of them from those with partial reforms. *Prima facie*, one can maintain that the countries that received at least three not less than 3 scores EBRD ratings, but did not receive at least six not less than 3 scores EBRD ratings ended with political oligarchic capitalism (POC) by the end of the first decade.

However, as a matter of principle, POC could be the outcome not only of partial market reforms, but also that of failed gradual reforms, and that of failed shock therapy. Russia is a case in point. In 2001, this country was evaluated by EBRD experts with not less than 3 grades for reforms in three areas. However, in 1997 (on the eve of the (in)famous Russian crisis) it scored not less than 3 in 5 areas. In 1990–1991 Soviet economists competed for who will propose a plan for market reforms with shortest transition time. According to Grigory Yavlinski's plan, market economy should be built in 500 days. Boris Yeltsin's government implemented somewhat different plan by Yegor Gaidar, but the basic idea was the same: shock therapy – as many as possible reforms at the maximal speed. Contemporary observers were nearly unanimous in their opinions that this is the type of economic reforms that were under implementation in Russia. So it can be concluded this was a clear-cut case of shock-therapy style market reforms, even if some enthusiasts of shock therapy did change their opinion retrospectively.

To attempt a generalization from this Russian case, one can establish the character of market reforms only on the basis of an analysis-in-depth of a concrete case. In this analysis, both the real outcomes and the calculations of their

¹¹ Let me remind the reader (for reasons see 1.3) that the chronology of the exit from communism and so the date of the end for the first post-communist decade is calculated differently: in former USSR and Yugoslavia republics first decade ended in 2001, in the Central and South-eastern European countries in 1999 (except Albania, where the first post-communist decade closed in 2000).

participants (architects and effectors) should be taken into account. The observations of the contemporary observers also provide an important clue for subsequent judgments on which kind of market reforms were taking place. But one should not infer the type of market reforms from its outcome, because in such cases the statements about the connection between the type of reform and that of the outcome would be true or false by definition.

2.3. Political Modes of the Exit from Communism: Concepts and Cases

As I have already pointed out in the first chapter (see 1.2), exit from communism is possible without changing a country's political system. China and Vietnam are ruled by authoritarian one-party dictatorships. But there is no reason to designate as a country with a rapidly growing or virtually dominant private capital sector as "communist". There is even less reason to call "communist" the states that have shed Marxism-Leninism as an ideology, although top power positions have remained under the control of the same persons and clans. In all these cases the basic character of the political system did not change: the authoritarian regime was preserved. Such exit mode from communism was called conservative (see 1.2). This mode is represented not only by China and Vietnam, but also by Central Asian countries where there was no democratic intermezzo between the communist and ex-communist authoritarianism (this was the case in Belarus).

Such a regime survived until 2000 in Serbia, where the Serbian ex-communist leader Slobodan Milošević made an attempt to create a Greater Serbia from all the lands of the former Yugoslavia that were populated by ethnic Serbs. In 2000, he was toppled in the coloured revolution that was the very first of its type. In the following years, coloured revolutions were victorious in Georgia, Kyrgyzstan and Ukraine. In these countries, they were directed against the softer authoritarian regimes or against the governments in unconsolidated democracies in order to stop their authoritarian tendencies. However, as we can see, these revolutions occurred during the second post-communist decade. Therefore, they will be only very briefly discussed in the next chapter about the outcomes of transformation (see 3.4). The task of the present section is to discuss the modes of democratizing the exit from communism and to assign values to cases. I can be brief on this topic, because research literature on the political exit from communism is much more consensual than that on the economic exit modes.

The interest in the democratization modes was most intense during the first post-communist transformation years. This interest was fueled by the following question: is it possible to build a market economy and liberal democracy at the same time? The transformation of the administrative planned economy into capitalism was unprecedented and not theorized (differently from the breakdown

of capitalism that was “predicted” by the Marxists many times). In contrast, researchers of the post-communist transformation could use rich conceptual vocabulary, developed in research on democratic transitions in South Europe and Latin America (see e.g. O'Donnell et al. 1986a; 1986b; 1986c; 1989d; O'Donnell and Schmitter 1986; Przeworski 1991).

These concepts were applied in the analysis of the democratization of former communist countries and proved their usefulness. So they are just taken over and used further in my book. Let me recap on some basic distinctions. Firstly, researchers on democratic transition make the distinction between democratic transition and democratic consolidation, conceiving them as two phases of the overall democratization process. Under transition, they conceive the dismantling of the authoritarian regime, and replacing it with a democratic one. Transition is over after the first freely contested election is over, and the government, which draws its legitimacy from such election, starts to work. This is also the beginning of the consolidation phase. It draws to conclusion when democracy becomes “the only game in town” (Linz 1990a: 156).

The concept of democratic consolidation is important in order to frame the outcomes of transformation (see 3.4). In dealing with the modes of exit from communism, only the concept of transition matters. Basically, transition can proceed in several ways that I will redescribe as the modes of democratic exit from the communist political system. These democratic transition modes were differentiated by the authors listed above, who were drawing on the lessons from the research on the democratization processes in Latin America and Southern Europe in the 1970s and 1980s. Therefore, I will use some “classical” cases from this part of the world that have never been communist as illustrations for different democratic transition modes.

Firstly, democratization can be initiated from the top by the ruling authoritarian elite itself. Juan Linz calls this mode of transition “reform”, and Samuel Huntington prefers the term “transformation”. Spain's transition to democracy is a classic example of such transition. In the same way the democratizing exit from communist authoritarianism proceeded in the Soviet Union during Gorbachev's perestroika¹², in most of the former Soviet republics and in Mongolia. In Central

¹² Although the events after the failed anti-Gorbachev coup in the August 1991 resemble revolution, this is only a superficial similarity. After August 1991, anti-communist democratic opposition did not rise to power in Russia. Instead, the ruling power became that part of the ex-communist nomenklatura which supported Boris Yeltsin before the attempted coup, calculating this as the best chance to continue their careers in government. After August 1991, this nomenklatura “party of power” was joined by some influential members of the democratic opposition. Because the democratization process remained in Russia under the control of this “party of power”, I will classify the democratization of Russia after 1991 as a case of democratization by reforms from the top.

Europe, democratization began in this way in Hungary but afterwards it mutated into another mode – “refolution”. Characteristically, Hungary lived until 2011 under the constitution that had been adopted in communist times. It was just supplemented with several essential amendments.

A quite opposite mode of democratic transition is revolution. Linz calls this mode the “rupture”, and S. Huntington prefers the “replacement”. In this case, the transition starts from the capitulation of the former power elite. Such capitulation can be caused by some catastrophe undermining the regime. Such a catastrophic event could be defeat in war or mass rebellion that, for some reason, cannot be suppressed by force. Before communism’s breakdown, such classical transitions of this kind took place in Argentina and Greece. In the post-communist world, democratic transitions in the Czech Republic and Eastern Germany are other clear-cut cases of this mode. More ambiguous are the cases of Estonia and Latvia, which will also be classified as cases of democratic exit from communism by revolution in this book. One can notice a common feature of all these cases: the communist political system was destroyed by revolution in the countries of bureaucratic authoritarian communism (see 1.1).

According to Huntington (Huntington 1991: 145–146), Romania is also a case in point. However, such a description can hardly be accepted, because after the violent upheaval in December 1989, the state power just passed to another group of the old ruling elite, composed of the communist functionaries who were in Nicolae Ceaușescu’s disfavour. Democratization went on, but this was a case of democratization from the top. In a similar way political reforms proceeded in neighbouring Bulgaria, where a palace coup removed Todor Zhivkov from power, together with his clique. Consequently, both these countries are classified as democratic exits from communism by democratic reform.

In the communist world, such democratization mode was typical for those countries of patrimonial communism, where democratization was initiated by part of the power elite. The goal of reformers was to preempt the change that could not be avoided. Splits inside this elite usually precedes the reform, prompted by disagreement over how to cope with political or economic crises. These splits divide the elite into conservative (hard line) and liberal (soft line) factions. If softliners win, they start liberalization: the “opening” or “decompression” of the regime.

In the case of rupture or revolution, there is no liberalization as a separate phase of democratic exit. Therefore, the opposition elite comes to power without any preparation to govern. Even if there were some designs about how to proceed when in power, the sudden disappearance of the usual opponent leads to internal divisions in the opposition elite at the time when it meets the challenge of laying down the constitutional foundation for the democratic regime. This was

what happened in Czechoslovakia, where the sudden loss of the common enemy precluded the preservation of the united state of Czechs and Slovaks.

There is an intermediate transition mode that different authors name by different words: “transplacement” (Huntington 1991: 114), “ruptforma” (*ruptura+reforma*; Linz ir Stepan 1978), “refolution” (reform+revolution) (Garton Ash 1989), “extrication” (Share 1987), “negotiated revolution”, “pacted transition” and so on.¹³ I have already declared the decision to use the “refolution” term (see 1.2). Democratization begins as, or becomes refolution, when the liberal faction in the authoritarian regime’s ruling elite defeats the hardliners and continues by searching how to solve the protracted conflict with the opposition. Such opposition survives from older times or newly emerges during the liberalization phase. The surviving opposition case was Poland, where the *Solidarność* movement survived underground after its repression in 1981. The newly emerging opposition cases were Hungary and Lithuania.

For this type of development, the protracted liberalization phase is needed. The opposition uses this time to mobilize mass support. There was no such phase in Bulgaria and Romania, so there was no powerful opposition at the point in time when communism broke down. However, it is not automatically granted, that such mass support will rapidly emerge. This was the case only in Hungary and Lithuania who, together with Poland, were cases of national communism (see 1.1). Although, in the late communist time there was no strong anti-communist underground, there was something like a “shadow civil society” with which the communist government had to reckon.

Differently from the reform that proceeds from the top, under the control of the liberal faction of the ruling power elite, and revolution which breaks out from below, in the refolution the ruling elite and opposition elites interact as equals. Under reform from the top, the outcome of transition (the constitutional foundations for democracy in the making) is most strongly influenced by the internal conflicts of the ruling elite. Under revolution, they are decided by the outcome of conflicts inside the victorious counter-elite. Under refolution, they are negotiated by the leaders of the authoritarian (late communist) regime and leaders of the opposition. The liberal faction of the ruling elite uses street action, guided by the opposition, to isolate and remove the conservatives from the positions of power. The moderate part of the opposition works to isolate its radical faction, warning about the threat of conservative reaction.

¹³ In the non-communist world, this was the mode of democratization in Uruguay, South Korea and South Africa. Another mode of democratization is imposition from abroad. In such case, democratization is implemented by a foreign democratic power which has defeated an authoritarian state in the war. The success cases for this mode of democratization are Japan and West Germany after World War II, while political developments in Iraq after the deposing of Saddam Hussein in 2003 is a case of failed democratic transition in this mode.

So under democratization by democratic reforms from above constitutional foundations of the new regime are legislated by the old elite, and under revolution they are worked out by the opposition launched to power. Under refolution they are negotiated by the new and old elite and then sustained by their implicit or explicit pact. Characteristic of refolutions are round table talks about the constitutional foundations of future democratic state order. Such talks are recorded also for some anti-communist revolutions (e.g. in East Germany and Czechoslovakia). However, in such cases the former power elite is not really a negotiation partner. It participates only to accept the victor's conditions over orderly power transfer. Real bargaining is only between the factions in opposition.

The democratic transitions by reform or refolution were smoother. However, they had their price. Most frequently, this was a formal or informal obligation of the opposition to abstain from the legal prosecution of the leaders of the former ruling elites (including the heads of the political repression agencies) and from the "lustration" of the rank-and-file functionaries. The concessions of the opposition or special clauses in the democratic constitutions promulgated from the top went so far as to leave some authoritarian enclaves within the new state order. This was the case in some Latin America's countries (e.g. Chile), where after democratization the military remained a "state within a state". There was explicit or tacit consensus that no new top military officers would be appointed without the approval of their elder colleagues still in office. Similar limitations were negotiated during the round table talks in Poland in the Spring of 1989 among Poland's communists and *Solidarność* leaders about the future sharing of power. However, most of them were not really implemented.

The topic that was most hotly contested at the round table negotiations was the choice of the democracy model: parliamentary, presidential, or semi-presidential?¹⁴ The political forces with political leaders who were believed to emerge as the winners at the first presidential election, were in favour of semi-presidential democracy and the majoritarian voting. Those without popular leaders were in favour of parliamentary democracy and proportional voting. In some cases the proponents of presidential democracy were anti-communists (e.g. in Lithuania), in others – ex-communists (e.g. in Hungary). It did happen that some expectations were disappointed in the short run – the favoured form or regime was more beneficial for opponents (and vice versa).

Both economic and political transformation of the post-communist countries were monitored by squads of international observers, who summarized their observations by regularly published ratings. They provide the basis for my judgments whether a specific state was a liberal democracy by the end of the first

¹⁴ On these concepts, see in 3.4.

post-communist decade. From all such ratings, maybe most famous are those of Freedom House, using a seven points scale.¹⁵ In this scale, 1 means “most free”, and 7 means “least free”. There is expert consensus to consider countries that are rated no more than by 2 points as liberal democracies.

I will use Polity IV Index “Polity IV Individual Country Regime Trends, 1946–2009”.¹⁶ The reason is not only real or alleged bias of Freedom House ratings in favour of the rightist authoritarian regimes that are strategic allies of the U.S. (see Munck 2009: 10), but the greater differentiating power of Polity IV index. In this index, the state of democracy is assessed on a 21 points scale, ranging from –10 to +10. This allows more differentiation in the assessment of the democracy’s condition and in its change in comparison with Freedom House ratings. Importantly, the index constructors free a user from the burden of selecting and substantiating the thresholds. They stipulate that countries rated no less than with score +6, can be classified as democracies. I will use this threshold to find out whether a specific country was democratic after the first post-communist decade.

These are scores for the states with 1999 as the closing year of the first post-communist decade: Bulgaria 8 (however, the Polity IV experts have reservations that in this year Bulgarian democracy still was not stable), Czech Republic 10, Poland 9, Romania 8, Slovakia 9, Hungary 10. These are the scores of the former republics of the USSR and Yugoslavia in 2001: Armenia 5, Azerbaijan –7, Belarus –7, Estonia 7 (before 2000, Estonia received only 6 for its democracy)¹⁷, Georgia 5, Kazakhstan –4, Kyrgyzstan –3, Latvia 8, Lithuania 10, Moldova 7, Mongolia 10, Slovenia 10, Tajikistan –1, Turkmenistan –9, Ukraine 6, Uzbekistan –9. Albania ended its first post-communist decade in 2000, receiving a score of 5 for democracy in that year. In contrast to EBRD ratings that ignore China and Vietnam, they are listed in the Polity IV ratings. Of course, their grades are very low: –7 for each country.

So we have the following list of countries that were successful in exiting communist authoritarianism to liberal democracy after the first 10 post-communist years: Bulgaria, Czech Republic, Estonia, Poland, Lithuania, Latvia, Moldova, Mongolia, Romania, Slovakia, Slovenia, Ukraine and Hungary. This list does not include Croatia because if this was the case then Serbia should be included also. About both countries the Polity IV index reports a sudden increase of democracy in years 2000–2001. In Croatia the change was from –5 to 8, and in Serbia

¹⁵ See <<http://www.freedomhouse.org>> 25.04.2011.

¹⁶ <<http://www.systemicpeace.org/polity/polity4.htm>> 25.04.2011.

¹⁷ Estonia and Latvia received lesser (in comparison with Lithuania) grades for democracy because of the perceptions of pending ethnocratic democracy in these Baltic States by many international experts. The evidence for such perception (clashing with the self-perception of the majority of ethnically indigenous population) was restrictive citizenship laws, grounded in the restitutional ideology of the post-communist transformation. See also chapter 5.

from -6 to 7. In the Croatian case, the democracy leap was related to changes after the death of the *de facto* dictator of this country Franjo Tuđman in 1999. In the Serbian case, the reason was the coloured revolution in 2000, which toppled Slobodan Milošević. In the first post-communist decade, the political agenda of these countries was dominated by the problems related to nation building and state building problems. Even ethnic cleansings were used for their “solution” in both cases. Therefore, real democratization of these countries started only in the second post-communist decade, in post-Tuđman and post-Milošević eras.

Taking into account later political developments in Russia, this country is not included into the list of early post-communist decades, despite the score 6 in 2001. However, Slovakia is included, although some experts and democracy rating agencies maintain that this country was not democratic under prime minister Vladimir Mečiar (1993–1994, 1994–1998). Slovakia was different from Serbia and Croatia, because Mečiar was not a real dictator in his prime ministerial years. He was in permanent conflict with President Michal Kováč and was dependent on the support of other parties to build a governing coalition.

In discussing the modes of economic exit from communism, the point is that there was no analytical connection between the mode and outcome (action and achievement). The same holds for the political mode and outcome. Of course, the countries that exited communism by conservative mode, entered the second decade with authoritarian regimes. However, like shock therapy and gradual transformation, the democratization can fail. For example, democratization from the top in Belarus ended with an authoritarian regime, after, in 1994, the freely contested election was won by populist Alexandr Lukashenko. Ukraine was democratized in the same mode. However, its political regime was not authoritarian by the end of the first decade, although there was erosion of liberal democracy. Erosion which had stopped by the Orange revolution of 2004.

Transcaucasian republics exited communism through anti-communist revolutions from below. However, in later years authoritarian regimes consolidated here under the facade of electoral democracies. The discussion of variation in political outcomes of post-communist transformation follows in 3.4. I will start with a discussion of the concepts necessary to describe variation in the post-communist economic systems, intermittently with the classification of cases in 3.1–3.3.

CHAPTER 3

Economic and Political Outcomes of Post-Communist Transformation

This chapter regards the outcomes of the post-communist transformation. The economic outcomes are described using the typology of capitalism, including three main types: rational entrepreneurial (or Weberian-Schumpeterian) capitalism (REC), political oligarchic and state capitalism. The first section explains the concept of REC and presents its evolutionary typology which embeds and historically relativizes the claims of the varieties of capitalism (VoC) theory of Peter A. Hall and David Soskice. The second section discusses various approaches to the typology of post-communist capitalism, focusing on the forms of REC in the former communist countries. The third section is about political oligarchic and state capitalism in this former Second World, now periphery or semi-periphery of the world capitalist system. The concluding fourth section presents conceptual tools for the analysis of the political outcomes of post-communist transformation, covering typologies of liberal democracy and authoritarianism.

The idea of a market economy provided a clear sense of direction at the time of exit from communism, but it is not sufficient to describe differences in the economic systems after post-communist transformation or to discuss the alternatives in the future evolution of these systems. For the comparative analysis of the outcomes of the first decade of post-communist transformation a distinction between rational entrepreneurial capitalism (REC), political oligarchic capitalism (POC), and state capitalism will be used. This trichotomy may be sufficient for the generalizing analysis encompassing all post-communist countries. For the analysis of the Lithuanian case in chapters 5–6 of the book a more differentiated typology of capitalism is needed. After REC is established in a country, two most interesting questions arise: which kind of REC it is? And which are the alternatives of its future development?

Therefore, in this chapter I will not only explicate the concepts of REC, POC and state capitalism, but will also survey typologies of REC and discuss problems

of their application to post-communist countries. Intermittently, with the discussion of conceptual problems, I will use the concepts under explication to classify specific post-communist countries. This work will be continued in section 3, providing more detail on the concepts and cases of POC and state capitalism.

3.1. Change and Diversity of Capitalism in the Comparative Economic Sociology and Political Economy

Because of the focus on cases and limited generalizations, I will be very brief on the generic concept of capitalism. Generally, I will proceed in the way that can be described as “neoclassical sociology”.¹ This means going back to the classics of economic sociology, both for the general idea of what capitalism is, and for the inspiration for how to analyze its varieties. For demarcation of capitalist and non-capitalist economic systems, Karl Polanyi’s idea of capitalism as an economic system with market exchange (instead of reciprocity and redistribution) as the dominant allocation mode, and Karl Marx’s conception of capitalism as an economic system where the capitalist mode of production dominates (with accumulation of capital as the production goal, private property of production means and wage labour as distinguishing features) are both complementarily useful.

The lineage of the concept “rational entrepreneurial capitalism” is encoded in its adjectives. The adjective “rational” pays tribute to the contribution of Max Weber, who classified as “rational capitalist” economies that sufficiently approximate the ideal type of “free market economy”, as described in the textbooks of neoclassical economy. In such an economy, there are free markets for consumption and producer goods, land, capital, and risk. The majority of the population survives from selling labour and buying consumption goods. Producers operate under hard budget constraints. The result being that they go bankrupt if the production costs exceed market prices, which are determined through price competition. The economic system of the REC type allocates resources efficiently, due to the pressure of market competition to minimize costs, and provides entrepreneurs with incentives to use their energy and talent in a socially productive way.

Weber’s pioneering contribution to the typology of capitalism was to contrast economically productive (“good”) rational and unproductive (“bad”) political

¹ In this, I am following the example set by Iván Szelényi and school. “Neoclassical sociology, much like the classics of sociology theorizing, will be primarily concerned with the origins and character of modern capitalism. <...> What neoclassical sociology emphasizes is the diversity of modern capitalism – in short, the subject matter of neoclassical sociology is comparative capitalisms.” (Eyal et al. 1998: 3).

capitalism. Political capitalism is unproductive because it directs entrepreneurs to political entrepreneurship and rent-seeking. The main source of rents is the artificial monopolies that the government creates and protects. As a result, the quantity of gross domestic product (wealth) created is smaller than would occur in the absence of such monopolies. Besides, a portion of the reduced wealth is wasted while vying for such monopolies in the form of bribing politicians and the media, hiring lawyers for long-lasting, costly legal proceedings, and so on. Weber's ideal type of political capitalism is seminal for the concept of POC used in this book.

By implication, according to Weber, rational capitalism is conditional on the availability of a state with strong infrastructural power (rational public bureaucracy) and which is relatively immune to corruption. This conditionality is another Weberian connotation of the adjective "rational" when applied to capitalism. Capitalism can be "rational" only in the institutional environment sustained by the state administration which is relatively neutral with respect to vested business interests and works in a machine-like mode – in a calculable and objective way. Together with prices determined by the market competition, this impartiality and calculability of state (freedom from any capture by private interests) makes out the rationality of the rational entrepreneurial capitalism.

The adjective "entrepreneurial" in the designation of REC is a tribute to the contribution of Joseph Alois Schumpeter. This is an analysis of capitalism as a creative destruction process. The driving force behind this process are private entrepreneurs seeking short-term monopolistic rents, which they earn as innovating business people who have deployed new technologies and applied production organisation innovations. Contrary to artificial rents claimed by political capitalists (such as a monopoly on sales of matches or fuel), these do not affect the amount of wealth that could be created at the given level of technological advancement, as they are the product of efforts to move up to that level through outward shifting of the production possibility frontier and boosting the total factor productivity.²

Because of these credits to Weber and Schumpeter, REC will be synonymously designated as Weberian-Schumpeterian capitalism. The most important feature of this capitalism type is its dynamism. "Whereas a stationary feudal economy would still be a feudal economy, and stationary socialist economy would still be a socialist economy, stationary capitalism is a contradiction in terms" (Schumpeter 1951 (1943): 174). This feature was already highlighted by Karl Marx who

² However, REC can be easily diverted into political capitalism by too-rigid intellectual property regulations (patent law) that encourage inventors and entrepreneurs to seek patent cover for things that are already known or to litigate over priorities rather than focus their energy on new inventions. See Baumol et al. 2007: 241–247.

described capitalism as a self-undermining economic system, where the explosive growth of productive forces unleashed by the capitalist relations of productions drives to their replacement by a post-capitalist mode of production.

Karl Marx may be right or wrong in his view that in the long run technological change explains most variation in the institutional forms of social life (cp. Lenski 1994; Norkus 2010b). But he was definitely wrong in maintaining that there is one capitalist mode of production approaching its collapse. Retrospectively, he would have been well-advised to speak about the capitalist mode of production not in the singular, but in the plural. As productive forces develop, thereby making capitalist relations of production and capitalist institutions dated, they are just replaced by another variety of capitalism. The history of REC since its inception in the late XVIII century can be described as the succession of at least 5 capitalist modes of production. Alternatively, they can be designated as evolutionary types of technologically advanced Weberian-Schumpeterian capitalism.

The best landmarks for the analysis of the sequential change of REC types are provided in the hypothesis of long-term economic cycles (“the long waves”) by the Russian economist Nikolai Kondratieff (1892–1938). Schumpeter has adopted and used this hypothesis in his monumental work *Business Cycles* to develop his theory of the qualitative change (i.e. development) of technologically advanced REC (see Schumpeter 1939). In this piece of work he argued that the observable dynamics of a capitalist economy can be explained by three overlapping cycles of varying duration, namely Kitchen’s cycle (roughly 40 months), Juglar’s cycle (8 to 9 years), and Kondratieff’s cycle (around 50 years). “Barring very few cases in which difficulties arise, it is possible to count off, historically as well as statistically, six Juglars to a Kondratieff and three Kitchens to a Juglar – not as an average but in every individual case” (Schumpeter 1939, 1: 174).³

Both Schumpeter and economy historians who elaborate his arguments (see e.g. Freeman and Louçã 2001) argue that the long Kondratieff waves are caused by breakthroughs in production technology and organisation. The basis for a new wave to arise is provided by clusters of radical innovations that mean commercial application of virtually new technologies rather than improvements to the

³ The existence of the “long waves” is admitted by relatively few economists, because time series of the economic indicators values that can be analysed statistically to test Kondratieff’s hypothesis are simply too short to draw any conclusions about the validity of that hypothesis in line with the canons of the classical statistics. To be able to do so, the time series should be at least 350–400 years long, whereas it hasn’t been 250 years since modern capitalism was born yet. “Strictly one should have to wait one or two centuries to be able to test the Kondratieff-cycle by the method of spectral analysis rigorously” (Ewijk 1999 (1982): 405). Besides, there are not enough data about the first cycles, and the data available can hardly be compared in a systematic and faultless way with economic statistical data for later cycles because of the qualitative changes in production technology and organisation.

existing ones. Schumpeter suggests that inventions and innovations ought to be kept separate. Innovators are entrepreneurs who are the first to take the risk of applying inventions in a commercial way. They can also be inventors, although these days inventors are scientists as often as not⁴, while the entrepreneurs take advantage of their inventions.

Kondratieff waves surge when several radically new technologies or projects fall into place to make a combination that forms a basis for the appearance of a new branch of industry. For the time being this new branch of technology becomes the driver or the carrier branch for the whole economy, as its products – inputs or technologies of the production process – affect many, if not all of the traditional branches of economy and allow an increase in the total factor productivity. Kondratieff waves diminish when the new technological paradigm plays out, i.e. the radical novelties spread out throughout the economic environment. The mathematical model of this type of diffusion processes is a logistic function with an S-shaped graph (this is the shape of diffusion both of innovations and of epidemic diseases, rumours, etc.).

In the rising phase of Kondratieff's wave, carrier branches grow the fastest and generate the highest yield. Their ascent affects other branches of industry, making the products produced by some of them grow obsolete and forcing the producing companies to go bankrupt, while other branches undergo radical changes when they begin using the products as the facilities or input to make their own products. All these changes have the cumulative effect of a shift in the structure of the economy. The supply and demand from the new leading branches of industry leads to a renewal of infrastructure (transport and communications). New consumer needs come into existence (new supply creates its own demand), and thanks to new consumer goods, transport and communications, the way of daily life itself changes as well.

The average growth rate of the rising phase of the long-term cycle of economic growth is greater than during the decline phase. Importantly, the economy is not stagnant in the long-term cycle decline phase. It is just that the short-term cycles forming part of the rising phase of the long-term cycle have long steep phases of recovery and boom, which are quite short and low-pitched during the decline. Whereas short-term cycle recessions and depressions are long and severe within a long-term cycle decline phase, they are brief and mild during the rising phase.

A total of five "long waves" can be identified in the history of technologically advanced REC, beginning with the last quarter of the 18th century. Based on their

⁴ Of course, scientists can become entrepreneurs by undertaking business to apply their inventions commercially.

emblematic products, new progressive technologies or carrier branches, they can be named as follows:

- (1) water-powered machines and the textile industry;
- (2) steam-powered machines, steam ships and railways;
- (3) electricity, electrotechnics and inorganic chemistry;
- (4) motorization, organic and synthetic chemistry;
- (5) computerization and telecommunications waves.

Each of these technological revolutions forms the foundation of a separate capitalist mode of production or evolutionary type of advanced REC. If one follows Marx in considering property relations over means of production as the most important differentiating feature, they can be described as:

- (1) local capitalism of individual and family enterprise owners;
- (2) local capitalism of small and medium-sized private limited liability companies (corporations);
- (3) national capitalism of big private corporations;
- (4) Fordist national capitalism of big private and public corporations;
- (5) post-Fordist globalized transnational capitalism of investment and hedge funds.

The rising phase of the first wave ended around 1825–1830. The boom phase of the second wave happened in 1850–1873, when Europe and the U.S. were building railroads on a grand scale. The rising phase of the third wave started in the late 19th century and relied on the transition from the steam engine to electric power. Accurate estimation of the date when it ended is made difficult by the First World War, with some historians of economy considering the end date of the boom phase to be that of its outbreak. During the war, the economies of many countries (the neutral states and the U.S. in particular) expanded significantly even if in a single-sided fashion, which has led some historians to associate the beginning of the third “Kondratieff winter” with the post-war depression.

Kondratieff’s fourth wave started after World War Two, and its rising phase ended around 1971–1973. The seventies and early eighties were the period of the fourth evolutionary Weberian-Schumpeterian capitalism type crisis, which can be compared to the relative recession of Great Britain’s economy that marked the end of the “textile age” in 1825–1844, also the Long Depression in 1873–1895 and the period between 1920–1945 with its Great Depression, which started in 1929.

The technological breakthroughs causing the long waves of economic activity have led to fundamental transformations of REC as well, which in Marx’s terms could be described as replacing one mode of capitalist production with another, substituting new relations of production (above all, the ownership relations over

the means of production) for obsolete ones. The REC of Kondratieff's first wave era is the individualistic private-ownership capitalism which Marx described in his *Capital*, with relatively small enterprises owned individually by capitalists or their families and run by their direct owners – the founders or successors of a dynasty of entrepreneurs – as its predominant form. Those companies were staffed with a non-organized workforce who had no guarantees of keeping their jobs or social security in the event they became unemployed or lost their ability to work.

During the times of Kondratieff's second and third wave, the individualistic private-ownership capitalism transformed into managerial corporate capitalism. Building railways with only the funds of individual capitalists was an impossible thing to do. To solve this problem, a new form of capitalist ownership organisation was invented. This form of ownership was the joint-stock company. Small-sized joint-stock companies were still prevalent in the period of Kondratieff's second wave. Only those companies that built and operated railroads went on to be big. At the time of the third wave, large joint-stock companies and their conglomerations, i.e. trusts, syndicates etc. came to dominate all of the key (and, primarily, newly created) branches of industry.

The advent of joint-stock companies created a background for the ownership “atom” to split, as such companies could be run by hired managers equally well. One joint-stock company could part-own another one through the purchase of its stock, which was available to buy on the stock exchange. While the object of capitalist ownership in the times of individualistic capitalism was one or two production or services units situated at a certain location, the corporations aspire to cover the national market. Besides that, they seek to penetrate foreign markets and start setting up their branches there. In this way, the small locally operating companies, owned by individual owners-managers are replaced by big corporations operating on the national scale. Such corporations could no longer be managed without there being “private bureaucracies”, i.e. management headquarters to coordinate the activities of local units scattered across the country or even located overseas.

The years of Kondratieff's second and third wave saw workers actively becoming more organized. Local trade unions began merging to become national associations, and social-democratic parties took to protect and represent union interests in politics, even becoming members of the ruling coalition in some countries. This transformation of individual private-ownership capitalism into its managerial and corporate form was followed by the establishment of the welfare state. This meant that the state, which used to be merely a war machine and a “night-watchman”, now started to protect its citizens from the risks created by the thorough marketization of societal life.

In the post-war period, apart from its concern about welfare, the state also had to take care of the macroeconomic regulation of the economy, which was

intellectually supported by the version of neoclassical economy that was elaborated by British economist John Maynard Keynes (1883–1946) and briefly took prevalence at that time. According to this version, even markets that are completely free and perfectly competitive cannot work effectively without regulation from the state. The purpose of macroeconomic regulation is to narrow the range of cyclical fluctuations of economic activity by adjusting market failures.

In literature, Keynes' REC of the era of Kondratieff's fourth wave is also referred to as "Fordist" capitalism to accentuate its qualities like mass production and mass consumption, coordination of capital and labour interests within the neo-corporatist system of interest groups. The present form of technologically advanced REC may be designated as post-Fordist digital capitalism. This type of capitalism was propelled by the rise of the information and telecommunication industries to the role of the new carrier branches since the 1990s.

By this time, Fordist capitalism was differentiated into varieties that had their peculiar characteristics defined by such criteria as: the cultural traditions of different countries and regions, their place on the global market and in the international political system, as well as by the balance between the internal social and political powers.⁵ One can find several different typologies of Fordist REC in economic and sociological literature. The most influential is the theory of varieties of capitalism (VoC) by U.S. researchers Peter Hall and David Soskice (2001), who advanced a deductive typology of rational entrepreneurial capitalism, and also the work by French sociologist Bruno Amable who combines methods of deductive and inductive statistical typology.⁶

Hall and Soskice have identified two ideal types of REC, namely the liberal market economy (LME) and the coordinated market economy (CME). These types differ in five respects: (1) financial and corporate governance systems; (2) industrial relations; (3) relations between firms and their employees; (4) education and vocational training systems; (5) inter-firm relations, i.e. methods of how to coordinate their actions. The LME is represented by Anglo-Saxon countries (United Kingdom, Canada, Australia, New Zealand) with the U.S. as the paradigmatic case. Such cases of CME are Germany and Japan, with Austria, Belgium, the Netherlands, Denmark, Sweden, South Korea as more examples.

⁵ On the origins of CME see e.g. Streeck and Yamamura 2002.

⁶ Bruno Amable has identified five types of capitalism: (1) Anglo-Saxon market-based; (2) Nordic social-democratic; (3) Continental European; (4) Asian; (5) Mediterranean. Capitalism types are defined by Amable as a "social systems of innovation and production" (Amable 2003: 85), characterized by "specific architectures of complementary institutions" (Amable 2003: 20).

Table 3.1. Ideal types of technologically advanced 4th and 5th Kondratieff waves rational entrepreneurial capitalism

Institutional spheres	Liberal Market Economy or Liberal Capitalism	Coordinated Market Economy or Social Capitalism
Corporate finances and governance	Equity markets as source of capital Impatient capital Dispersed property rights Orientation to higher risk capital markets, “casino mentality” Short term orientation, preoccupation with quarterly earnings	Bank loans as sources of capital Monitoring by “house bank”; patient capital Main (block) owner Reluctance to finance higher risk ventures and technologies Long term orientation
Industrial relations	Weak trade unions Contingent work force, insecure jobs Individual labour contracts, “hire and fire” personal policy, flexible labour market Wage setting linked to individual productivity, “market rate” wages No industrial democracy, limited or no workplace role for unions	Strong trade unions Collective labour contracts, employment and unemployment protection Life-long work contracts Wage setting linked to seniority, qualifications, and negotiated pay scales Elements of industrial democracy – participation of employee representatives in the company decision-making
Education and training	Future employees invest in general skills (general human capital) Firms avoid investing into specific skills, “stealing” workers with requisite skills from other firms	Future employees invest into specific skills (specific human capital) Firms invest into specific skills; System of vocational education and training, involving industry organisations and unions
Relations between firms and employees	Disloyal employees, firm as commodity	Loyal employees, community-like firms
Relations between firms	Coordination only via market Arms-length relations between firms Fully specified contracts Market-based standard setting No developed institutional framework for technology diffusion	Strategic coordination using non-market channels and mechanisms Networks of trust or branch associations Relationship contracts Consensus-based standard setting Business associations as frameworks for technology diffusion

The table contains no laundry lists, because different institutional spheres are complementary: “one set of institutional practices can be said to be complementary to another when each raises the returns available from the other” (Hall and Gingerich 2004: 22). If the institutional logics of different spheres contradict, the returns decrease. The international competitiveness of the state suffers, pressing for a change towards a more coherent institutional structure. As firms in an LME have no patient capital, they are forced to be “cruel” with their workforce, shedding it when demand slumps. But flexibility of employment has as one collateral consequence: employees’ disloyalty to their firms. Employing such workers, firms avoid investing in their training. Therefore, they do not have a skilled task force to meet the challenges of the high quality diversified production. Under no employment protection and weak unemployment protection, future employees avoid investing into specific human capital acquisition (professional education and training), and prefer university education in transferable skills and “learning to learn” in order to be able to rapidly find new jobs after firing. In terms of the trade-off between specialization and adaptability, this means preference is given to adaptability. Institutional complementarity is the obstacle for construction of perfect capitalism by borrowing best practices from different varieties of capitalism (e.g. social protection from Sweden, venture capital markets from the U.S., vocational training systems from Germany, and the principle of the firm as a community from Japan).

It may appear counterintuitive, but the varieties of capitalism theory predicts that the mix of “best practices” and arrangements will actually perform the worst. Any efforts to create the “perfect capitalism” out of the “best practices” are faced with the same set of obstacles that were missed by the convergence theoreticians in the 1970s who were painting a picture of a society that would embrace the advantages of the socialist and the capitalist systems, as well as by the reformist communists engaged in the designing of “democratic socialism” projects.

Describing one of the two advanced REC types as *strategically coordinated* capitalism, the theory of the varieties of capitalism highlights the role of non-market coordination between firms. The designation of the same type as *social* capitalism focuses on the different social welfare consequences of CME and LME. At the same level of economic productivity or GDP per capita, liberal capitalism brings smaller taxes (but also lesser supply of public goods), lower unemployment (but also more prisoners), more inequality, more alienation and less solidarity, more freedom (for rich people), more social insecurity and more poverty than its social twin (Kenworthy 2004; Pontusson 2005; Therborn 1995). The welfare regime of LME is cut down to a minimal welfare state (see Esping-Andersen 1990). In CME a more generous welfare state is a necessity. Workers would not invest into specific human capital, if they were not insured against unemployment risk.

However, the most important thesis of the theory of variegated capitalism is about the viability and stability of different capitalism types. On the technological frontier, only the capitalism type with comparative institutional advantages in sustained genuine innovation can survive global market competition. One can speak about innovation in the broad sense, encompassing also the things that are only locally new and may be introduced by emulation. Innovation in the narrow sense refers to what is new for the world. Discussing types of the technologically advanced REC, only comparative advantages in such genuine innovation matter.

There is no coherent set of institutional arrangements that would make a country competitive in all high added value industries and services. CME institutions provide comparative advantages for firms in traditional industries where capability of incremental innovation is key to success, such as car building and many capital goods (industry equipment) industries. These are community-like firms with internal labour markets and loyal key personnel (*Hauptbelegschaft* in German) attached to them by *de facto* life-long contracts. *Hauptbelegschaft* is a carrier of technological knowledge accumulated in the learning by doing. This knowledge is hard to codify, it is transmitted largely through personal contact, and is distributively possessed by the community. It is a collective carrier of skills necessary to produce high quality diversified products, including both consumer and capital goods. LME institutions sustain comparative advantage in the emerging industries, where radical innovation is key to success. The reason for this is a rich supply of venture capital and a flexible labour force with general human capital.

Whether CME and LME will survive as distinctive varieties of capitalism in an increasingly globalizing economy has become a hotly debated issue in recent comparative economic sociology and political economy. Are the differences between LME and CME a legacy from the Fordist capitalism that will be erased under the post-Fordist capitalism? Will institutional configurations of the CME type increasingly converge on the Anglo-Saxon LME model, or will the continental European and Japanese CME model continue to evolve in path-dependent ways? At this point in time, the statements of the pending demise of CME seem to be premature. They express misperception of what really were the adaptation processes of CME to globalization which in fact did not erase its specifics. The course of the world economy during the ascending phase of the 5th Kondratieff wave confirmed the main thesis of the varieties of capitalism theory in which there is no such architecture of capitalist institutions that would secure comparative advantages on the technology frontier in all industries and services. Over the last two decades, LME countries performed best in the information and telecommunication (ITC) industries, CME states were more competitive in car, electro-technic, microelectronic, and manufacturing equipment (capital goods) building industries.

The properties of the institutional organisation of a capitalist economy which provide a country with an edge in one area are the reason why it fails in another. Hence, globalization does not necessarily mean that the LME will oust and, therefore, win over the CME. The information and telecommunication industries launched in LME states have brought to the markets a lot of new products (for instance, personal computers with increasingly sophisticated software and mobile phones), but this does not mean the decrease of demand for cars, electric appliances or even bicycles. The competitive edge in production of such more traditional products can be maintained only when innovating in the incremental way.

In terms of competition, manufacturers in a country where industry was the first to begin producing a certain new product may succumb, in the long run, to manufacturers from another state where a new industry is being created on the basis of patents purchased from other countries, yet is able to guarantee a higher quality of products and to respond to consumers' needs with more flexibility. This may already be happening, because cutting-edge innovations in information and telecommunication technologies are no more the monopoly of U.S. based transnational corporations. Rather than levelling the organisation of economic systems, globalization brings into the spotlight the differences among the existing types of capitalism, encouraging specialization in the areas in which their institutions can obtain an advantage for them. Corporations operating on an international scale take advantage of those differences for institutional arbitrage, moving their operations to countries where the institutional landscape matches the specifics of their business and products best, rather than to regions that can offer the cheapest labour.

As a matter of course, CME countries are rather different from what they were by the beginning of the 5th Kondratieff wave. In CME countries, banks have really started shaking off their former role of a "patient investor" or a key shareholder. Over the past two decades, stock exchange activity has increased tremendously in such countries. On the other hand, property rights (stock) markets have seen an upsurge in the role of the so-called institutional investors, and pension funds in particular (see e.g. Dixon 2008). Many of them are defined by the typical "patient investor" behaviour, previously a defining feature of banks and private individuals – the controlling stockholders. This is typical of investment funds that are concerned about the security of their investments and long-term returns rather than the possibility to make (or lose) a lot of money through high-risk short-term investments. Given the nature of their liabilities, they have relatively long investment horizons. To describe the situation in the most accurate way, one should distinguish between the old (Fordist) models of CME and LME, and the new post-Fordist models of CME (and LME). "If we look at Japan's post-war history, for example, we can see that the model in 2005 fundamentally differs from the model in 1960. But we cannot identify a breaking point at which one model

transformed into other. Likewise, in the future we are not likely to see an end to Japanese model but only its continuous redefinition” (Vogel 2006: 224).

It is important to note that the comparative advantages of different types of REC have to be measured against their performance under the conditions of both high and low conjuncture. Giving accurate assessment to the recession that embraced most countries worldwide in 2007 in the history of Kondratieff’s fifth wave is a task historians of the future will have to undertake. Yet it is possible that this is a turning point that marks the beginning of a long-term declining phase (Kondratieff’s winter No. 5). It can be said that countries representing the CME have demonstrated, at least until now, a higher degree of resilience against financial/economic hardships than Great Britain and the U.S., which are paradigmatic LME cases. The same characteristics of the U.S. financial system which gave the country a comparative edge at the beginning of a new long-term upsurge, have turned it into the epicentre and a hotbed of the largest economic crisis to happen after 1929–1933. After the outbreak of Kondratieff’s fifth winter, the capability to ensure uninterrupted incremental innovation may become the most important source of competitive advantage in the development of the telecommunications and computer industry, which by now are traditional industries.

The coming sixth Kondratieff wave may harbour a new future for LME countries becoming a hothouse for synthetic biology industry. But instead of convergence of the economic organisation of all technological frontier countries on the Anglo-Saxon LME, it may bring the emergence of new types of REC, as some of the newly industrializing countries will manage to break into the class of the technologically advanced affluent countries.⁷ For the next one or two decades the differentiation of the technologically advanced REC into two basic types is set to survive. So the ideal types of LME and CME still provide the best frame of how to think about the future of post-communist countries, i.e. as alternative points of arrival in the convergence with most advanced countries that are target in movement. Therefore, we will come back to them in the penultimate chapter discussing the alternatives of the development of capitalism in the Baltics. But they are not enough to understand their present state.

3.2. Rational Entrepreneurial Capitalism in the Post-Communist World

The researchers of post-communist capitalism are divided on the question of whether the VoC theory of Hall and Soskice may be applied to post-communist countries.⁸ As a matter of fact, this theory was constructed to describe the differences of the states on the frontier of technological progress. In such mature

⁷ Most probable candidate is the emergent Chinese variety of REC.

⁸ For attempts of such application see Buchen 2007; Feldmann 2006; King 2007.

capitalist economies, technological innovation grounded in research and development is the only venue to increase productivity. The theory of comparative institutional advantages demonstrates why and how the institutions help to remain on the frontier and don't fall back.

However, none of the post-communist countries were on the frontier at the time of the breakdown of communism. The most important cause for the demise of Soviet state socialism was its inability to sustain endogenous incremental, not to mention radical technological innovation. Even worse, during its concluding time it was unable (in contrast to its Chinese twin) to sustain even innovation by technology transfer. Considerable during the first decades of the planned economy system, its capacity for technology absorption decreased. Such absorption together with the exploitation of still unused resources are the main sources of the economic growth in the countries lagging behind the technological frontier. As a country approaches the technology frontier, the capacity of a state to substitute for private entrepreneurship diminishes, which is the main driving force of the economic change in the capitalist economic system. If such a system works within the institutional framework which is supported by Weberian state, then such a system can be classified as REC or Weberian-Schumpeterian capitalism.

For countries on the technological frontier, both designations of their political economic systems – rational entrepreneurial capitalism (REC) and Weberian-Schumpeterian capitalism – are strictly synonymous. While the second adjective in the latter designation (“Schumpeterian”) applies also for many countries which are not on the technological frontier, the important provision should be made that in this case the Schumpeterian part in the definition of REC refers to the leading role of private entrepreneurship in the *derived* innovation, which means technological knowledge transfer and application, but not in the *genuine* innovation which prevails in the frontier countries. Derived innovation was not the subject of Schumpeter's theory of economic development. Therefore, in due place (6.2) the characteristics of the REC in the countries behind the frontier will be supplemented with further adjectives to honour thinkers whose work may be emblematic for the peculiarities of post-communist REC. Before that, we must check whether the unmodified VoC theory can help to illuminate the institutional outcomes of the capitalist transformation of former communist countries.

As a matter of fact, the application of the quantitative measures to identify the position of specific countries with respect to ideal types of LME and CME to post-communist countries can provide useful insights. This is what transpires in fig. 3.1, which visualizes the findings of recent attempts to apply the index of market/strategic coordination to data sets including both advanced REC and post-communist countries. In this attempt, Mark Knell and Martin Srholec have

applied instruments designed for the purposes of making the typology of Hall and Soskice (Hall and Gingerich 2004) empirically operational. Researchers use 12 indicators to address data for the period of 2001–2004. Although this is already history, their analysis is most convenient, because my book focuses on the outcomes of the first post-communist decade. The indicators are as follows:

- (1) government expenditure (% of GDP);
- (2) highest marginal personal income taxation rate;
- (3) highest marginal corporate income tax rate;
- (4) Gini coefficient;
- (5) difficulty of hiring workers;
- (6) difficulty of firing workers;
- (7) costs of firing workers (severance payments and penalties);
- (8) rigidity of working hours;
- (9) number of start-up procedures to register a business;
- (10) time to resolve insolvency;
- (11) number of procedures to register property;
- (12) stock market relative to banking sector in the financial system (the ratio of market capitalization of listed companies to domestic credit provided by the banking sector).

These variables are grouped according to the results of factor analysis. The first factor has the highest loadings for variables (1)–(4). They are used to construct the index of social cohesion, alternatively called the redistribution index. Its values are small or negative for LME countries, large or positive for CME countries. One can assert that they reflect the differences in social welfare and social safety regimes. The loadings of the second principal factor are highest for variables (5)–(8). They are base for index of labour market regulation with small or negative values for LME, and with large or positive values for CME. The third factor has the highest loadings for the last 4 variables (9)–(12). They ground index of business regulation with large or positive values for CME countries, and small or negative for CME countries. Next, researchers sum up all three indexes into an overall index of coordination.

Knell and Srholec focus on the relation between social cohesion, labour market regulation, business regulation, overall coordination and economic development, measured by GDP per capita. The results of their analysis show that there really is an association between the level of economic development and social cohesion: the richer the country is, the higher the degree of cohesion. No such link exists between the level of economic development and the indices of labour market regulation. The connection between business regulation and economic development is negative, meaning that business regulation in more developed

countries is weaker than in less developed states. The connection between coordination and the level of economic development is just as negative: less developed countries apply non-market tools to coordinate economic activities more often than their more developed counterparts (see fig. 3.1).

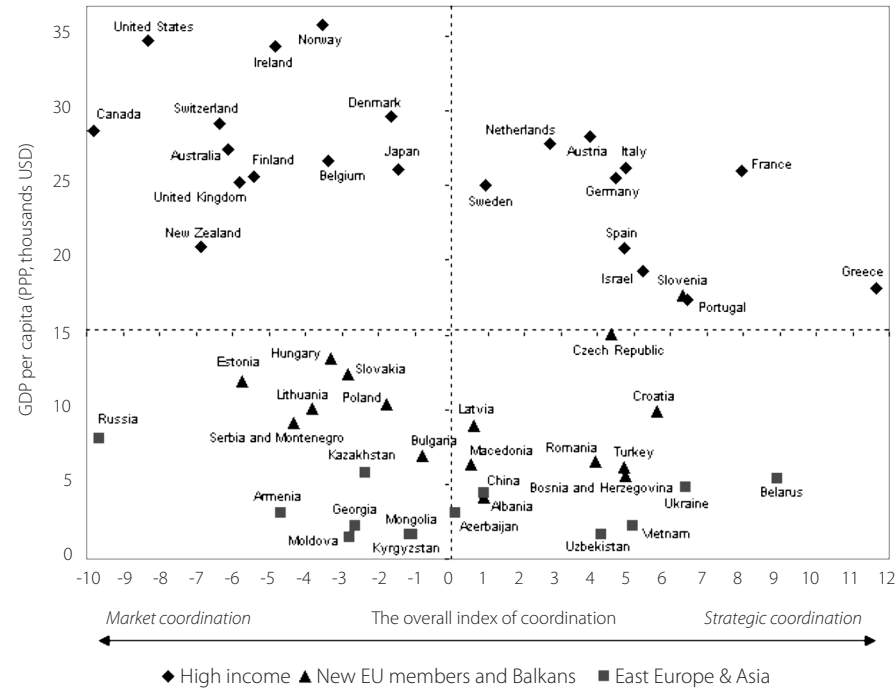


Figure 3.1. Economic development and overall index of coordination. Reproduced with permission of Palgrave from Knell, Mark; Srholec, Martin. 2007. "Diverging Pathways in Central and Eastern Europe," in Lane, David; Myant, Martin (eds.). *Varieties of Capitalism in Post-Communist Countries*. Houndmills: Palgrave, 51 (© 2007).

However, this link is very weak. And, as far as our problem of whether post-communist countries can be divided into groups similar to CME and LME sub-groups among REC countries is concerned, Knell and Srholec's analysis discovers among post-communist countries the same dimensions of differences that apply to the old capitalist states. Differentiation in countries that are economically more liberal and coordinated through strategic instruments among post-communist countries is just as pronounced as the similar differentiation among advanced countries that are rather neatly grouped into LME and CME clusters. The new EU members include two clear extremes: Estonia as the most market-oriented state and Slovenia as the most clear-cut case of strategic coordination. Other new EU

members are in-between, with Lithuania close to neo-liberal Estonia, and Visegrád countries moving to LME states among the older members of the EU.

However, while the big picture may seem correct, the quantitative analysis misleads us about individual countries and conceals the qualitative differences between advanced REC and underdeveloped post-communist countries. It would be too straightforward to conclude that Russia belongs to the same capitalism type with the U.S., or France with Belarus, because this would neglect the qualitative difference: the U.S. and France are on the global technological frontier, while Belarus and Russia are far behind. Neither would it be wise to neglect what we know from other sources about Russia. Russian political oligarchic capitalism might have been the wildest at some time⁹, but it has never been closer to the textbook free market economy than Baltic capitalism.

Even if among post-communist countries the Baltic States are most similar to LME countries, one does not find here active and liquid stock markets and significant stock market capitalization.¹⁰ Like other post-communist countries, they are not sufficiently affluent to provide ample venture capital that makes LME type economies favourite sites for emerging industries grounded in radical innovation. Instead, their growth is conditional on the import of capital and technology. Until post-communist states become affluent and reach the technology frontier, the theory of comparative institutional advantages of advanced countries is useful to think about the future, but of limited value to understand their present state.

As a matter of fact, post-communist economic transformation involved two overlapping processes: (1) closing the technology gap or catching up with the technological frontier countries; and (2) integration into the world economy by finding the place in the international division of labour. Until the technology gap is closed, differences in the institutional arrangements matter more not as a basis of advantages in different types of genuine innovations, but rather as causes of disparities in the absorptive capacity. This is the capability to assimilate and apply new ideas and technology developed abroad (see Abramowitz 1986). However, the institutional architectures that provide advantages for a country at the technological frontier are not necessarily the best option for countries that can still draw on the “advantages of underdevelopment”.

This is one of the most important insights in the world systemic analysis of capitalism that must be used complementary with the institutional analysis of

⁹ According to “Transition Reports”, regularly published by the European Bank for Reconstruction and Development, Russia was never the liberalization leader among post-communist countries. See <<http://www.ebrd.com/pages/research/publications/flagships/transition.shtml>> 14.02.2011. It is a matter of common knowledge among the social researchers, that the conclusions of the variable-oriented quantitative research and those of the in-depth case analysis frequently diverge.

¹⁰ More on this in the penultimate chapter (6.2).

the VoC theory type to provide an accurate picture of post-communist capitalism and its variegation. Under conditions of post-communist transformation, the main vehicle of this transfer was foreign direct investments (FDI). The absorption capacity of technology went hand in hand with the capacity to attract and absorb FDI. However, not all FDI may serve as such a vehicle. Not all FDI have positive spill-over effects by links with local firms to move the host economy closer to the frontier. With no such effects, the outcome can be a country with two economies: one based on the activities of foreign enterprises and the other based on domestic small enterprises and traditional economic sectors. The investment of multi-national corporations (MNC) in the mining, gas or oil industries in underdeveloped countries is a case in point. The quality of FDI is contingent on the mode in which the transition country was inserted into the world capitalist economy, which is revealed by the structure of the country's foreign trade and how its overall payment balance is maintained.

From this viewpoint, one can distinguish core, semi-core, semi-periphery, and periphery capitalist countries. The core of the world capitalist economy (the "top league") includes most capital-affluent and advanced postmodern countries on the frontier of radical or incremental technological innovation, where the highest added value production is concentrated. The semi-core includes modern countries with capabilities to manufacture products developed in the core, but which are still unable to autonomously develop and organize (as intellectual property owners and marketeers) commodity chains to produce high-tech or branded products or provide related services.

The semi-periphery includes countries with the skills and economic environments sufficient to produce semi-manufactures and simple manufacturing products of low added value. Low labour costs are a key factor for international competitiveness of such products. The periphery countries are able to compete on the world markets as raw materials producers. If they are not endowed by nature, they survive by exporting labour force with emigrant remittances being an essential element for their international payments balance, and by foreign aid.

This analytical framework is applied to post-communist countries in the work by Dorothee Bohle, Bela Greskovits (see Bohle and Greskovits 2004; 2006; 2007a; 2007b; 2007c; Greskovits 2005), and Jan Drahokoupil and Martin Myant (2011). Bohle and Greskovits base their conclusions on an analysis of the structure of exports, for which they used data from the COMTRADE database of the United Nations Statistics Division.¹¹

Depending on whether the exports are dominated by (1) heavy-basic, (2) light-basic, (3) heavy-complex, (4) light-complex production, they have identified four

¹¹ See <<http://comtrade.un.org/>> 29.03.2011.

types of countries. According to their classification, heavy-basic production (1) consists of agricultural products, oil, gas, electricity, coal, metals, paper, rubber and plastic. Light-basic production (2) is deemed to include timber and its products (including furniture), textile, footwear, etc. Heavy-complex production (3) consists of chemicals (other than pharmaceutical products), vehicles and heavy industrial machinery. Light-complex production (4) is considered to embrace pharmaceuticals, electronic and electrotechnical equipment and light products from the machinery manufacturing industry (see Greskovits 2005; Bohle and Greskovits 2007a).

States that specialize in manufacturing type 3 and 4 products are classified as semi-core countries. These are the Visegrád countries and Slovenia.¹² Countries specializing in manufacturing type 1 and 2 products are classified as semi-peripheric. Such countries include Bulgaria, which specializes in exports of type 1 products as well as Romania and the Baltic States, which are specialized in type 2 products.

When it comes to manufacturing type 4 and type 3 products in particular, the wages component of overall production costs is low, labour is highly qualified and manufacturing processes are organized in such a way that striking workers can inflict heavy losses on the capital, as capital mobility is relatively low, due to immense investments into the material infrastructure of manufacturing. Such conditions favour a social compromise between work and capital similar to the one, which exists in countries of continental European and Scandinavian capitalism. And that is exactly what the social embeddedness of capitalism that exists there means. Because of the social embeddedness, this type of capitalism can also be described as a social market economy or social capitalism (compare Apeldoorn 2002; Pontusson 2005).

One can find a different kind of situation in countries where the production of the type 1 and type 2 products prevails. Here the wages component of overall production costs is quite high, and any increase in wages immediately affects profitability. Therefore, there are no grounds for a compromise between capital and labour here, and the predominant type of enterprises are the so-called sweatshops, where the employer seeks to pay the lowest possible wages and squeeze as much as possible out of their hired hands.

The antithesis of these countries is Slovenia – the only post-communist country where REC is clearly evolving in a shape which is quite close to Nordic and continental capitalism (the paradigm cases of which are France and Germany).¹³ In the “middle”, there are the Visegrád countries of the Czech Republic, Poland, Hungary, Slovakia, where the architectonics of economic institutions possess the

¹² In 6.1 I will argue that Slovenia should be classified together with core countries.

¹³ This is also the only post-communist country that with some plausibility can be considered as part of the capitalist world system core. More on this in the penultimate chapter (6.1).

traits of both continental and Mediterranean capitalism. Therefore, they should be singled out as a separate type of Central European or Visegrád capitalism. Summing up their analysis, Greskovits and Bohle describe Slovenia's capitalism as neo-corporatist, the Baltic capitalism as neoliberal and the capitalism of the Visegrád countries as embedded neoliberal in that way accentuating that it is more (neo)liberal in comparison with the "embedded social" capitalism of the old EU members in continental Europe.

Jan Drahokoupil and Martin Myant come to broadly similar conclusions, although they use slightly different criteria in how to find out the relative place of a country in the capitalist world system (see Myant and Drahokoupil 2011: 299–312). They supplement analysis of the export structure with that of how a country maintains its overall payment balance. For such analysis, the structure of the financial in-flows and out-flows and changes in the current account of the balance of payments provide the most important evidence. Importantly, their analysis encompasses not only Central and Eastern European countries, but the entire post-soviet world.

So they distinguish FDI-based second-rank or semi-core market economies of Visegrád countries, peripheral market economies (the Baltic States and South Eastern European countries – i.e. Bulgaria, Croatia, Romania), oligarchic or clientelistic capitalism states (most of the Commonwealth of Independent States countries, foremostly Russia), order states (Belarus, Uzbekistan, Turkmenistan), and remittance and aid-based economies (Moldova, Kyrgyzstan, Tajikistan). In the semi-core countries, export-oriented complex sectors with FDI are crucial to obtain currency to pay for imports. Peripheral market countries do this by exporting simple manufactures or components, and are dependent on subcontracting from MNC. Oligarchic capitalism states survive on commodity (steel, chemicals) and raw materials export, while remittances from citizens working abroad help to compensate for foreign trade deficit remittance countries. Although they are few, order states provide a complicated picture, some maintaining complex export-oriented sectors without FDI (Belarus), and others (Turkmenistan, Uzbekistan) are dependent on the raw materials export.

In the penultimate chapter (in 6.2), I will argue that all 4 authors may differentiate too little between the Baltic States, classifying all them as semi-peripheric (Bohle and Greskovits) or peripheric capitalism states (Drahokoupil and Myant). I will also differentiate in this chapter between two varieties of post-communist REC – Weberian-Porterian and Weberian-Friedmanian. In the present chapter, I will focus on the generic features of those post-communist countries which joined the European Union in 2004, and will argue that they underestimate the impact of the accession to the EU on their economic institutions. Rational entrepreneurial capitalism (REC) is the dominant form of economic organisation in the world

economy core and semi-core countries, while it barely occurs in periphery, and in semi-periphery it is more exception than rule in comparison with political oligarchic, state and state monopolistic capitalism.

Even though in terms of the level of their economic and social development some of the new EU members are not that much different from the most advanced republics of the former USSR that have been left out of the Union, EU membership inhibits oligarchic, statist and monopolistic tendencies that would otherwise have a manifestation so strong that there would be no reasons to class such countries as REC states. Thanks to their belonging to the EU, market institutions in these countries are more developed than they would be if their condition were determined by internal technological, economic, social and cultural factors alone.

It should also be emphasized that the EU started to have this effect on the development of Central European and Baltic countries even before they joined the Union. The effect first occurred back in the mid-nineties, when the 1993 Copenhagen decisions created a prospect of joining the EU for them. A mimetic ideological orientation finally overshadowed the restitutive one and the 'Europeanization' of their legislation and post-legislative regulations commenced: the harmonization with the *acquis communautaire* – the body of EU agencies' legislation. The relative maturity of capitalism in these countries where rapid and successful marketization and democratization took place was institutionally certified through their accession to Western international economic and military organisations (the EU and NATO) in 2004. Membership in these and other international organisations became safe havens for market reforms (Havrylyshyn 2006: 203–230).

That does not mean that countries that do not have liberal democracy or REC yet, cannot become members of such organisations. It is a known fact that Spain, Portugal, Greece and Turkey were able to join NATO in spite of their authoritarian regimes at that time. Moreover, the acceptance of some of the South European countries (such as Greece) to the EU could have been caused by geopolitical and other considerations. However, post-communist countries (or at least those that were accepted to these organisations in 2004) are a totally different case. They were facing very rigid, non-negotiable accession conditionalities. So, their economic institutions had to demonstrate impeccable compliance to the minimal REC standards. The lack of some local REC attributes (for instance, absence of a well-developed capital market) was compensated for by their accession to the single European economic space with its system of all the markets that are required for the Weberian-Schumpeterian capitalism to work.

Therefore, to complete the world systemic analysis of capitalism in the post-communist world that we have been reviewing one has to draw a line between post-communist countries that have core, semi-core and semi-peripheral REC,

and those semi-periphery and periphery countries where political oligarchic and state capitalism was established. The distinctive features of the post-communist semi-peripheric neoliberal REC in the Baltic States will be discussed in chapter 6, where it will be described as Weberian-Friedmanian capitalism. The characteristic features of semi-core REC in the Visegrád countries, are concisely summarized in table 3.2, where they are contrasted with the characteristics of the LME and CME varieties of REC in the technological frontier countries.

Table 3.2. Central European dependent market economies (DME) in comparison with co-ordinated market economy (CME) and liberal market economy (LME). Reproduced with permission of Cambridge University Press from Nölke, Andreas; Vliegenthart, Arjan. 2009. "Enlarging the Varieties of Capitalism. The Emergence of Dependent Market Economies in East Central Europe," *World Politics* 61(4): 680 (© 2009).

Institution	Liberal Market Economy (LME)	Coordinated Market Economy (CME)	Dependent Market Economy (DME)
Distinctive coordination mechanism	competitive markets and formal contracts	interfirm networks and associations	dependence on intrafirm hierarchies within transnational enterprises
Primary means of raising investments	domestic and international capital markets	domestic bank lending and internally generated funds	foreign direct investments and foreign-owned banks
Corporate governance	outsider control/ dispersed shareholders	insider control/ concentrated shareholders	control by headquarters of transnational enterprises
Industrial relations	pluralist, market based; few collective agreements	corporatist, consensual; sector-wide or even national agreements	appeasement of skilled labour; company level collective agreements
Education and training system	general skills, high research and development expenditures	company- or industry-specific skills, vocational training	limited expenditures for further qualification
Transfer of innovations	based on markets and formal contracts	important role of joint ventures and business associations	intrafirm transfer within transnational enterprise
Comparative advantages	radical innovation in technology and service sectors	incremental innovation of capital goods	assembly platforms for semi-standardized industrial goods

I take this summary from the paper by Andreas Nölke and Arjan Vliegenthart, who provide a synthesis of the VoC theory and world systemic approaches in the

analysis of post-communist capitalism. Therefore, it is an important contribution, although their synthesis covers only part of the post-communist countries. The concept of REC may provide the basis for the expansion of its scope by bringing into focus common features shared by advanced countries, and those which were most eager to transfer their institutions (this is the case of Central European and Baltic countries) or were innovative by inventing new capitalist institutions (this was the case in China and Vietnam).

Importantly, the institutions listed in the right column build no laundry list but are complementary in the sense of increasing each other's returns. This is the main reason to classify post-communist Central European countries as cases of a distinctive type of capitalism (dependent market economy; DME), and not just as unstable mixtures of LME and CME type institutions (intermediate cases). Such "cocktail capitalism" was characteristic for some post-communist countries (e.g. Romania, see Cernat 2006), but this is not the case in post-communist Central Europe.

One can identify here a specific dominant economic coordination mechanism that is different both from coordination by market arrangements and by strategic coordination by interfirm networks and national or sectoral associations. This mechanism involves hierarchies within MNC that include as their parts, subsidiaries in the post-communist states. The firms that are parts of these hierarchies do not need to raise funds on their own at the stock markets or borrowing from domestic banking (which also is foreignly dominated). Instead, they receive FDI allocated by the headquarters of MNC who may raise capital on the international financial markets. Making major decisions, managers (mostly locals) of firms included in MNC hierarchies do not have to negotiate with holders of large blocks of stock or banks (as in CME), or take decisions autonomously under the pressure to maximize short run shareholder's value by financial markets (as in LME). Instead, these decisions are negotiated with the CEO in the Western headquarters.

As pointed out by Bohle and Greskovits, MNC invest in Central Europe mainly in physical-capital intensive (heavy complex) or human-capital intensive (light complex) industries. Such investments are highly sensitive to industrial conflicts. Differently from CME countries, they are avoided not by nationwide or sector-encompassing corporatist arrangements, but mainly by company-level agreements. This is different from LME countries where companies prefer individual agreements and "market wages". MNC may afford to pay wages that are lower than in the capitalist core countries, but higher than paid by the local companies in the semi-core states. This is sufficient to bind skilled labour to their companies and sustain personnel with the tacit knowledge needed for the assembly and production of relatively complex durable consumer goods and even of some capital goods.

This is the area where DME countries have their comparative advantage. They are grounded both in the set complementary institutions described above, and in the structure of their economies, characterized by a relatively low cost skilled workforce with knowledge of medium to higher level technology as heritage acquired during communism. Therefore, MNC may economize on the investment into the specific capital of their core personnel, which is characteristic for CME countries. Instead, the system of higher and vocational education inherited from the communist time was adapted for their needs. However, MNC are not interested in the strong higher education, including research universities doing cutting-edge research necessary to sustain genuine technological innovation.

Differently from CME and LME states, DME countries do not display a comparative advantage in genuine innovation. Instead, the institutional framework of DME provides a comparative advantage in the transfer and absorption of technology. High-tech research and development is concentrated in the countries of the MNC headquarters. Then, the results are delivered to subsidiaries through transnational networks that bind together different places of production. The research activities in the subsidiary countries are mostly directed to activities such as testing and standards, and the number of native high-tech companies in Central European DME countries is relatively low.

Semi-core post-communist REC countries with DME type institutions were more successful than most post-communist countries in diminishing the technology gap. One exception is China, where a different and even more successful type of REC is in the making and is still difficult to classify even for the experts (see e.g. ten Brink 2010; Naughton 2007; Huang 2008). Another exception may be the Baltic States. They represent a separate variety of DME, whose typological identity will be discussed in chapter 6.2, where two subtypes of DME – Weberian-Porterian (Central European) and Weberian-Friedmanian (Baltic) capitalism – are distinguished. I will also argue (in 6.1), that Slovenia should be classified as a full-blown core CME country, because it not only preserved, but also enhanced its manufacturing capabilities and closed the technology gap.

Massive foreign investment helped DME countries to advance technologically and attain economic success without large investment into the national education and research system. They are well placed to advance into the top league of the capitalist world economy, provided they manage to establish and maintain research universities and related academic and research centres both for upstream (fundamental) and downstream (applied) research. Otherwise, their institutional and structural advantages may be eroded by the rise to the semi-core of new countries. Some of them may be the post-communist states that, by now, have sets of economic institutions that can be classified as political oligarchic, state and state monopolist capitalism.

3.3. Political Oligarchic and State Capitalism in the Post-Communist World

There is a widespread belief in post-communist countries that the communist nomenklatura has been transformed into capitalists becoming the grand bourgeoisie. The group of researchers of post-communist transformation who call themselves the neoclassical sociologists have attempted to investigate what really happened (see Szelényi and Szelényi 1995; Eyal et al. 1998: 113–151). The findings of Iván Szelényi and his collaborators show that this belief is not well-founded, at least in the case of Central Europe. The data they have compiled indicate that for the absolute majority of the old political-bureaucratic elite post-communist transformation meant, on the contrary, the end of their career and a drop in social position. Many of them were forced to retire in spite of their relatively young age, and to make do with a relatively small level of subsistence in comparison to what they had before. Only the relatively small minority of members of the political-bureaucratic elite who possessed an optimal structure of personally accumulated capital, in which political capital was complemented by a proper type of cultural capital managed to stay at the top.

Even more significant is the finding of the neoclassical sociologists that only a small part of the former technocratic elite (senior administrators and managers of state enterprises) became the owners of the firms that they had headed. This finding contradicts the popular myth of “prichvatization”, which says that former directors of companies became their owners. Even though many of the former directors did indeed become proprietary capitalists, such ownership would typically extend to newly founded small businesses associated by the subcontracting relations with the enterprises that they formerly managed (see King 2001).

In the vast majority of cases, instead of trying to privatize their companies, Central European technocrat directors tried to find them a “good” buyer – a foreign corporation that, in return for assistance in making the purchase (primarily, by supplying insider information and other consultations and services that would enable them to buy the company for a minimum price) would appoint them to well-paid, albeit lower-ranking positions within the management of the company once it was privatized.

Such brokerage services were widely popular among high-ranking dissidents-humanists-humanitarians who had occupied high positions in the government for longer or shorter periods. Their reward was well-paid jobs as managers of, or representatives for various international corporations, organisations or funds. In Central Europe, capitalism evolved “from without”, the capitalist class being imported together with capitalist institutions and capital. These were not necessarily capitalists from a specific country, like Germany, Sweden or the U.S., but rather a cosmopolitan international class of capitalists that rapidly developed in the sec-

ond half of the 20th century, its member's identification with any one specific country growing increasingly weak (see Brezis 2010).

Such observations are summed up by neoclassical sociologists in one statement that a new comprador cultural bourgeoisie took shape in Central European countries; however, no national capitalist class emerged. At the end of the first decade of post-communist transformation, DME in Central Europe was "capitalism without the capitalists".¹⁴ A cultural bourgeoisie is not a capitalist class, because the source of its powers, prestige and privileges is not economic capital (the basic means of production ended up in the hands of foreign capitalists) but rather cultural capital, meaning the knowledge, competences and skills that enable the technocratic and humanistic-humanitarian elite to carry out the "comprador" functions of local agents and middlemen of international capitalists. At the same time, members of the cultural bourgeoisie assumed the lifestyle and values typical to the "real" capitalist owners and ensured the functioning of institutions of market economy that capitalism requires.

Neoclassical sociologists fail to find any such regular system of market institutions or, in other words, rational entrepreneurial capitalism in Russia and most of the former Soviet Union republics as well as Romania and Serbia (King and Szelényi 2005: 213). On the other hand, there are capitalists to be found there as well. These are the oligarchs that became famous all over the world in Yeltsin's times, like Boris Berezovski, Mikhail Khodorkovski, Vladimir Gusinski and others, who, following privatization, started controlling a hefty share of the most lucrative type of former public property, namely the extraction and exports of raw materials. Having described this regime as "capitalists without the capitalism", neoclassical sociologists correct themselves, giving it the alternative name of "patrimonial capitalism" and "political capitalism".¹⁵ Another name for it is "capitalism from above".

This name emphasizes the fact that this form of capitalism evolved "from above" through the nomenklatural political-bureaucratic elite's conversion of their political capital into economic capital, i.e. turning former governmental property into private assets. Such type of privatization did not bring either new capital or new technologies or managerial competences and has triggered processes of economic involution that are primarily manifested as deindustrialization, bartering, delays in payment of salaries or payment of salary in kind, and

¹⁴ After the second decade Szelényi made a series of reservations to augment this thesis. Another decade later a national capitalist class appeared in those countries, but these developments are beyond the time parameters defined for this book. See Szelényi 2010.

¹⁵ This book prioritizes on the name of "political oligarchic capitalism". That way I wish to accentuate Weber's pioneering contribution to the analysis of this brand of capitalism. Also see Ganey 2009.

the outflow of capital abroad. Technological degradation of production was the most destructive consequence of oligarchic management, when instead of making relatively high-tech products with the potential of competing on the international marketplace (like space satellites) enterprises opted for manufacturing comparatively primitive merchandise designed for the local market (for instance, heating stoves for country houses), thus irreversibly losing the skills required to make sophisticated products.

According to Szelényi, when it comes to Central European countries this kind of development has been impeded by the union between the technocratic and the humanist/humanitarian elite. These two factions of cultural bourgeoisie are adversaries, to the extent that their rivalry still forms the basis of the political battles that are taking place in those countries. Neoclassical sociologists connect technocrats with nominally “leftist” parties that have broadly evolved from former communist parties, while humanists-humanitarians are related with nominally “right-wing” political forces. The relatively fair competition on the market and in the political arena of those countries has become the key method to coordinate interests and social activities.

Whereas, in countries of patrimonial political or political oligarchic capitalism the same function is performed by patron and client networks, most of whom survive from communist times. Instead of a transition from “plan to market”, the collapse of the communist regime here meant a shift from “plan to clan”. The rivalry of the core clans that took the shape of parasitic financial-industrial groups focused on the control over the state apparatus, in order to secure certain monopolist rights, tax privileges, etc. While the commanding heights of the economy are under the control of the capitalist elite, the security of property rights and the positions of individual members of the capitalist elite depend on their belonging also to the political elite or being personally connected (best of all, by kinship or clanship) to the state leaders. The bulk of the activity of the oligarch capitalists consists of political entrepreneurship and rent-seeking.

Individuals who ranked among the governing elite or were closely related with it by personal ties at the time of privatization later became oligarchs. They included a lot of former members of the communist nomenklatura, although obviously only a few of those made it to the ranks of oligarchs and not every oligarch is a former member of the nomenklatura. In Russia, for instance, many of them are former scientists who used to work at academic research institutes during the Soviet era and once the reforms kicked off were able to apply their intellectual skills to orchestrate ingenious combinations and machinations, which allowed them to get rich quick. Many representatives of the academic world turned to politics and became members of the first post-communist administrations, where they were able to abuse their posts for personal gains.

The circles of the new business moguls and politicians still remained so closely tangled up that the resultant situation can be best described using the term “captured state”. This means that a group of capitalist oligarchs are the real selectorate that influences the personal line-up of the top-ranking authorities, whose policies actually serves the interests of the oligarchs. While the state is captured by the oligarch capitalists as a group, there may be internal struggles over the share of power. They are least visible in the countries (e.g. Kazakhstan, Azerbaijan) where the late Soviet authoritarian regime was preserved, and the oligarch capitalist elite include only the kinsmen of the dictator. This was not necessarily the case in the countries (e.g. Serbia, Kyrgyzstan, Ukraine, Georgia, Romania, Moldova, Bulgaria) where democratization from above took place, leading to delegative democracy, hegemonic electoral authoritarianism, or competitive electoral authoritarianism (see 3.4). In some countries with such political regimes, internecine conflicts among oligarchs created openings for “coloured revolutions”.

Some authors classify as POC cases, the countries with a considerable number of billionaires. In actual fact, before the recent world economic crisis from 2007 there were many more billionaires in Russia than in advanced Weberian-Schumpeterian capitalism countries with a total GDP of similar size. However, oligarchs are billionaires only in big or rich countries. In small and poor countries, one needs a lesser fortune to be able to participate in the successful effort to capture the state. The values of state capture index may be large both in some large and in some small post-communist states (see fig. 3.2).¹⁶ I will use the values of this index by the end of the first decade of post-communist transition as the main evidence to identify political oligarchic states.

Of course, one must use them with caution, because some of them may contain measurement errors or artefacts. This is the obvious case in Kazakhstan, where the Nazarbayev clan is a dominant power not only in politics, but also in economy, this is probably also the case in Armenia. So although I will choose the threshold value 30 (at least and more) to distinguish between POC states and those that are not, I will also include Armenia and Kazakhstan among them. On the other side, the rating of Slovakia is not taken at face value, because it was most probably biased by the negative attitude of the international community against Vladimir Mečiar.

¹⁶ The calculations (with corrections) by Oleh Havrylyshyn are used. See Havrylyshyn 2006: 192–193. In his turn, he used data and calculations from Hellmann and Schankermann (2000: 555) and Hellman and Kaufmann (2003: 35).

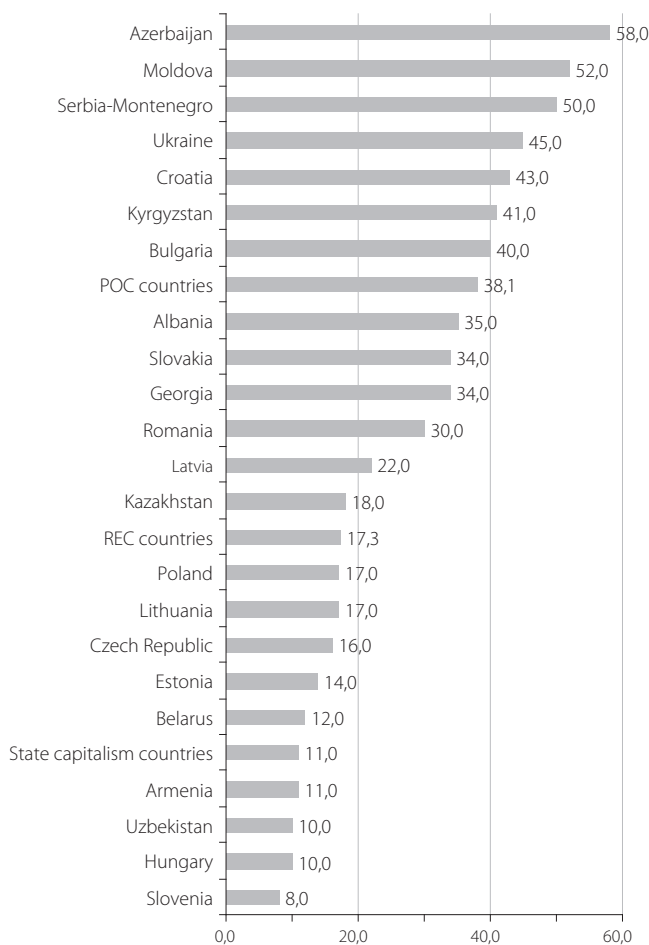


Figure 3.2. **State capture index in 1999.** There is no data about Tajikistan and Turkmenistan.

The political economic system of Belarus and Uzbekistan (and Turkmenistan to a certain extent) is authoritarian order state (see Iwasaki 2004) capitalism. The governments responded to the institutional vacuum after the breakdown of the Soviet Union by taking over the functions of the administrative coordination and management of the economy, which were formerly exercised by all-union and union-republican ministries in Moscow. However, market reforms implemented under Gorbachev were not rolled back. Governments approved the autonomy of enterprises in the areas of enterprise transactions, price formation and labour contracts. No more yearly or 5 year plans were prepared. The directors of enterprises were asked not to implement plans, but to secure the survival of enterprises in the emerging markets. So order state's economies are no longer plan

economies, but still display features of command economies, as the government still has many ways to interfere with production.

It was only in the second decade of post-communist transformation that privatisation of large companies began; even so, the state sought to keep the controlling stock or to control the “golden share”. The state exercises austere control over the flows of foreign trade and finance and regulates a large portion of prices. However, capitalism is allowed to grow from the bottom as private business is no longer prohibited. Here capitalists emerge in the same way as in Western European states by evolving from successful small entrepreneurs who have accumulated an economic capital. The state or the public sector coexists with the private sector, which excels in terms of the rate at which it develops. That way, by growing from the bottom up capitalism evolved in China and Vietnam during the first few decades of market reform. Capitalism made quite a progress during Kádár’s rule in Hungary, where a rather ample tier of small and medium-sized entrepreneurs took shape even before 1989. Even though this wasn’t the case after the first decade of post-communist transformation, the current (2011) economic regime in Belarus and Uzbekistan resembles that which existed in China circa 1992–1993.¹⁷ These regimes can be alternatively designated as “hybrid capitalism” (to emphasize the growing role of the private sector) or “state capitalism” (to pinpoint the dominant role of the state by the end of the first post-communist decade). This typology of capitalism which relies on ideas from Szelényi, Nölke, Vliegenthart is summed up in fig. 3.3.

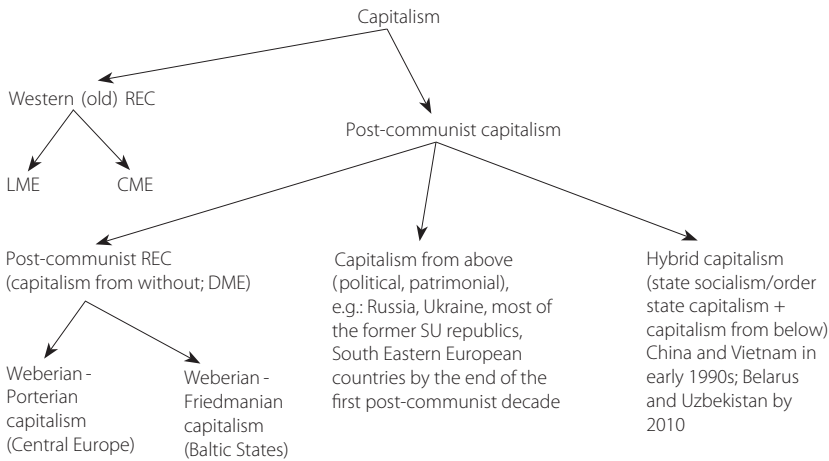


Figure 3.3. Post-communist capitalism typology.

¹⁷ In another ten years China became a REC country with a peculiar strain of this type of capitalism. China “grew up” some of its capitalists, while others were imported. The latter were representatives of the international cosmopolitan capitalist class just as in Central European countries as well as the abundant Chinese diaspora (*Huáqiáo*). On Central Asian economies see Pomfret 2006.

If, under POC, state governance is captured by a narrow group of oligarchs, in countries of state and state monopolist capitalism, it is the capitalism itself that is the captive of the state. The concept of state monopolist capitalism is best suited to describe the economic system in Russia after 2000. When Yeltsin was president, it was almost a classic example of POC. After Vladimir Putin acceded to power, the Russian POC transformed into state monopolist capitalism. The adjective “monopolist” can be used to describe capitalism in Russia because the state of the economy and the economic policy of the government is primarily affected by the activities and interests of several of the largest monopolist companies or branches of industry (typically related to raw material extraction, processing and export).

These interests, however, are not the only element that affects the formation of such policies. Even though the major share of such companies’ capital is held privately, when it comes to matters of principled importance to the Russian government (like foreign policy), large private companies follow political rather than economic logic, obeying signals from the Kremlin.¹⁸ Entrepreneurs that disregard such signals (which don’t necessarily have to be direct instructions) run the risk of drawing exclusive attention from the law enforcement and fiscal agencies or even becoming victims of some kind of punishment. However, as the principal heights of the economy are in private hands, the economic system in Russia can definitely be described as capitalism and monopolist capitalism which is controlled and coordinated by the state (cp. Lane 2008).

In addition, property rights can be quite secure under an authoritarian regime and therefore oligarchs may be quite fine with an explicit or implicit agreement, whereby they refrain from any attempts to directly influence the political process via the media or in other ways that may be not acceptable to the authoritarian government, in exchange for the guarantees of ownership rights. Such an unspoken pact between the financial-investment groups controlled by oligarchs, which are the main organisational unit of capitalism in Russia, and the political elite, with former and current officers of the Russian secret police and other power structures at its core, has been the cornerstone of stability of the political-economic system in Russia since 2000.

One of the surprises brought by post-communist transformation was the better performance by the states that followed the path of building state capitalism during the first post-communist decade as compared to POC or even some of the REC countries (see table 3.3). Although one needs to approach the economic statistics of state capitalism countries with great caution, they still indicate that

¹⁸ One example is the response of Russian business people to the “Bronze Night” events in Estonia in April of 2007 (Russian minority riots surrounding the relocation of the Bronze Soldier of Tallinn, the Soviet World War II memorial) that was orchestrated by the Russian government and later turned into an actual, albeit informal, economic blockade of the latter country.

of all the former Soviet Union countries Uzbekistan was the least affected by the transformation-induced recession, which in the authoritarian Belarus was not much deeper than in the neoliberal Estonia.

Table 3.3. Real GDP annual growth rate averages by country groups in the first post-communist decade. Author's calculations. Data source: European Bank for Reconstruction and Development (EBRD). 1999. *Transition Report 1999. Ten Years of Transition*. Paris, 73.

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Central Europe (Czech Republic, Hungary, Poland, Slovakia) and Slovenia	0.4	-4.7	-10.8	-3.2	0.6	4.3	5.2	4.3	4.6	3.2	2.4
Baltic States (Estonia, Latvia, Lithuania)	2.4	-3.4	-7.0	-23.5	-13.3	-3.7	2.3	4.0	8.9	4.3	0.5
South-Eastern Europe (Bulgaria and Romania)	-2.7	-7.4	-12.3	-8.0	0.0	2.9	4.6	-3.0	-7.0	-1.9	-2.0
Former Soviet Union republics other than Belarus, Turkmenistan Uzbekistan, and Baltic States	2.3	-4.8	-10.9	-25.4	-13.8	-16	-5.3	-0.1	3.6	1.1	0.7
Belarus, Turkmenistan and Uzbekistan	1.6	0.2	-2.1	-8.7	-6.6	-11.9	-6.5	-1.2	-4.4	5.2	7.2

These cases contradict the view of the neoliberal economists that shock therapy is the only way to exit communism avoiding economic and social catastrophe. So they explain these “deviant cases” by allegedly very beneficial initial conditions of the post-communist transformation. In Turkmenistan’s case, these conditions were the income from gas exports, although dependence on these exports is also the Achilles heel of the country’s economy: the inability of gas importers in Russia to pay for gas over a period of several months reduced the GDP of Turkmenistan in a single year (1997) by 26%. With Uzbekistan, it is the resources of gold, energy products, and cotton, which enjoys substantial demand on the world market. Besides that, Uzbekistan is favoured by the “advantages of underdevelopment”, because differently from the European republics of the Soviet Union, there was no “socialist super-industrialization” in this Central Asian country. It was rather an agricultural country and therefore (as in China and Vietnam) still had resources for extensive growth.

However, this is something that cannot be said in any context with reference to Belarus, a country that is not rich in natural resources. It was one of the most industrialized Soviet republics. The relatively good macroeconomic and social indicators of Belarus are usually attributed to its exceptional relations with Russia, which made it possible to procure energy and other resources at prices below global market rates. However, such an explanation does not answer the question of why macroeconomic (other than inflation) and social indicators were worse in Russia. This country engaged in radical neoliberal reforms (including mass privatization, which allowed the narrow group of oligarchs to prosper), while Belarus only provided a rather limited freedom for private economic activities and rather limited decision-making autonomy to the directors of state-owned enterprises.

Of all the explanations of this paradox, the argument that the main advantage of post-communist state capitalism countries over POC countries was the preservation of the administrative powers of the state (see Popov 2000; 2007; Fritz 2007) is the most convincing. Without such powers a state cannot achieve enforcement of governmental decisions. In Russia, just like in many other post-Soviet republics economic transformation was followed by the collapse or weakening of the state. Here, partial reforms reduced income to the state budget rapidly and severely, and the state weakened to the extent that it was no longer able to perform its functions that were required to ensure productive market relations. The services of ownership protection, contract enforcement, which were in demand by business, were seized by criminal groups, depriving the state of the monopoly of the legitimate use of force. Governmental protection, a single “roof” for all business subjects was replaced with a plenitude of “roofs” provided by many vying criminal groups that were often entwined with the corrupt apparatus of law enforcement (see Volkov 2002).

Jeffrey Sachs is only half right in saying that “markets spring up as soon as central planning bureaucrats vacate the field” (Sachs 1994: xii). Actually, without there being any state-maintained legal order, only small, local markets can operate. Large, trans-local markets cannot operate with any success without the artificial institutional conditions that the state ensures and upholds. If the state is weak, meaning it is unable to protect property rights, guarantee delivery of contracts etc., then liberalization, rigid monetary policy and privatization cannot bear the expected results. The political-economic system of oligarchic capitalism didn’t provide a friendly environment for small and middle private entrepreneurship that is very important in order to launch vigorous economic growth and lead the country out of the late socialist misery and stagnation. Although, criminal security businesses, which substitute for the inability of the state have, in the long run, been legalised to take form of legal security firms, the level of transaction costs of economic activity increased dramatically in areas where the state was incapable of creating a secure environment for private business initiative.

As a result, a lot of potentially productive deals (aimed at creating added value or new wealth) could not be made and carried out, and the post-transformation recession turned into a lasting depression. The extraordinarily high risk of impending expropriation both from criminals and corrupt officials has deterred a lot of entrepreneurs from engaging in socially productive activity. Some were ruined while others still were induced to undertake criminal and socially counter-productive activity: they became “violent entrepreneurs”, gang leaders and members. Therefore, during the first decade of post-communist transformation development of market relations was not socially productive in many post-communist countries (Russia and Ukraine in particular) (see e.g. Ericson 2001).

The conditions for small and medium-sized business to evolve in countries of state capitalism were not as good as in the future Central European and Baltic REC countries. Just like in Russia and other POC countries, entrepreneurs in these countries had to operate in the face of lawlessness and corruption of officials. In state capitalism countries, just like in POC countries, the property rights of entrepreneurs (capitalists) are not protected as the state can expropriate individual “wrongdoer” entrepreneurs (and sometimes that is just what it does). However, such actions used to originate only “from the very top”, and the level of corruption among ordinary officials in countries of state capitalism is lower than in POC countries, where small and medium-sized business had to endure double pressure from corrupt officials and organized crime groups.

Having retained control over a major portion of the economy, the state was able to collect taxes better and finance education and healthcare, which had suffered a significant drop in quality in POC countries. Therefore, the social costs of the transition to a market economy here were much lower than in POC states. On top of that, the state was able to pursue an industrial policy by investing into the development of priority branches, following the example of East Asian countries. Due to a higher degree of saving and investment, their economy revived and developed quicker than in POC countries and even some of the REC states.

The principal problem that causes researchers' opinions to diverge is this: can the economic and political system – a combination of the authoritarian (or semi-authoritarian) regime and political oligarchic or state capitalism – that took shape in countries where no liberal democracy or REC evolved during the first decade of post-communist transformation be considered a stable combination, so that the post-communist transformation in such countries can be seen as finished? Although this book focuses primarily on the outcomes of the first decade of post-communist transformation, I cannot bypass this issue as leaving it out of the discussion would make the characteristic of POC and state capitalism incomplete.

Some researchers say that POC is an unstable, transitional configuration of political and economic institutions as, having had their fill of plunder, oligarchs

themselves start to support the legal and democratic state that guarantees equal protection of property rights (Aslund 1995; Shleifer 1995). While, on the contrary, others believe it is a stable formation and engineer deductive POC models that help explain and predict the stability of this type of capitalism. They argue that thanks to their own asymmetrically huge economic powers, oligarchs are capable of protecting their property rights individually, deriving most benefits out of a situation where they are able to secure monopolistic profits and rents through control over the state's policies. These kind of policies would have been impossible under the conditions of liberal democracy and legal state, and therefore they support neither the former nor the latter (Hellman 1998; Durnev et al. 2004; Polischuk and Savvateev 2004; Sonin 2003; Havrylyshyn 2006: 233–254).

The “coloured revolutions”, which rolled across many post-communist countries in the beginning of the second decade of post-communism, may appear to provide evidence that POC is a mere temporary transitional condition. These were the “rose revolution” in Georgia (2003), the “orange revolution” in Ukraine (2006), the “tulip revolution” in Kyrgyzstan (2005) and the 2000 revolution in Serbia that resulted in the ousting of Slobodan Milošević.

However, in that a coloured revolution has a victorious outcome does not necessarily mean that POC has collapsed or liberal democracy has triumphed. Even in the countries (Ukraine in particular) where the coloured revolution has preserved or reconstructed democracy, it did not alter the basic political oligarchic nature of the economic system. That is another reason to consider political oligarchic capitalism a stable type of capitalism rather than a passing state of transformation into REC. Those who have their own doubts about this statement can be advised to consider the probability that exit from this unstable equilibrium could go in the direction opposite to REC and liberal democracy. Semi-authoritarianism can transform into complete authoritarianism and POC can become state monopolist capitalism. This is how the changes in Russia which started after Putin's accession can be interpreted.

If one were to ponder the prospects of post-communist POC, state and state monopolist capitalism, it is important to take into consideration the fact that some configurations of political (the “superstructure”) and economic (the “infrastructure”) institutions provide conditions for the economy (the “forces of production”) to grow quickly, followed by a social and cultural change. While on the contrary, others inhibit economic growth and social modernization. According to Bruno Amable, the types of capitalism can be defined as “specific architectures of complementary institutions” (Amable 2003: 20). About the configurations of political-economic institutions (types of capitalism) which provide the environment for sustained economic growth and are able to deal with its social and cultural

implications, at least over the medium term, (which is one generation, roughly 30 years), one can predict that they will remain relatively stable.

If the greatest “surprise” during the first decade of post-communist transformation was the relatively good performance of order states (i.e. state capitalism), then the major sensation in the second decade was the economic growth that started in most of the POC countries after 1998 (see table 3.4). For several years running, their GDP was growing faster than in Central European countries – the forerunners of post-communist transformation, as experts employed by international financial institutions tend to think of them. This is also true when it comes to the economy of Russia, which, after the first war with Chechnya (1994–1996), which it lost, and the 1998 crisis in particular was hastily “deleted” by many Western observers from the list of the great powers. In his recent book, Anders Aslund, a prominent analyst of post-communist economic transformation and one of the most consistent apologists of the neoliberal “shock therapy” and also a former adviser to Boris Yeltsin says that POC countries excel over Central European countries on the institutional front as well. They are praised for lower public expenditures and taxes, smaller social transfers and lesser budget deficits (Aslund 2007: 306–307, 310).

Table 3.4. Real GDP annual growth rate averages by country groups in the second post-communist decade. Author’s calculations. Data for 2010 represent EBRD projections. Data source: European Bank for Reconstruction and Development (EBRD), <<http://www.ebrd.com/downloads/research/economics/mptgrow.xls>> 26.05.2011.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Central Europe (Czech Republic, Hungary, Poland, Slovakia) and Slovenia	3.8	2.9	3.3	3.9	4.8	4.9	6.3	6.3	3.6	–4.3	2.0
Baltic States (Estonia, Latvia, Lithuania)	7.0	7.4	7.1	8.3	7.8	9.3	10.0	9.0	–1.8	–15.7	–1.6
South-Eastern Europe (Bulgaria and Romania)	2.7	4.8	4.8	5.1	7.5	5.2	7.1	6.2	6.7	–6.1	–0.8
Former Soviet Union republics other than Belarus, Turkmenistan; Uzbekistan, and Baltic States	6.7	8.2	7.3	9.6	8.9	9.0	10.4	10.4	5.9	–3.6	4.5
Belarus, Turkmenistan and Uzbekistan	9.4	9.7	8.3	9.4	11.3	9.8	9.5	9.8	9.8	4.4	7.5

However, one can doubt the long term sustainability of the economic successes of POC states and, most importantly, it can be doubted that their roots lay in their institutional architecture. The economic growth is characteristic foremostly

for countries with exportable natural resources (gas, oil) or capacities for commodities (steel, chemicals) production. They are much less impressive in poorest POC countries with remittance and aid-based economies (Kyrgyzstan, Moldova and Tajikistan). The successes of POC states during the second decade look even less impressive, if one takes proper account of the fact that some of them did not even manage to recover to the GDP level of 1989 by the end of second post-communist decade (Georgia, Moldova, Serbia, Tajikistan and Ukraine). Even where this was the case due to very favourable world market conjuncture, the growth was not accompanied by changes in the structure of the economy or considerable human development indicator improvement. And even if there was change in the economy structure, then it didn't go in the direction of the economy structure characteristic for capitalist core and semi-core countries.

Instead, their role as peripheric raw materials exporters came into sharper profile after many capabilities that had been used for relatively technologically sophisticated production were lost during the protracted recession of the first post-communist decade. In Russia, the inspiration to launch the market reforms for parts of the elite was the expectation that these reforms would help the country to close the technology gap that had been increasing during the last two or three communist decades. These hopes were dashed. In contrast to the DME states in Central Europe, this gap has actually increased. So if POC can be considered as a stable form of post-communist capitalism, this is in the sense that it stabilizes the peripheric world system position and the path of dependent development of a country with POC institutions.

One must be more differentiating about the prospects of order states with state capitalist economies. As a matter of principle, "it is clear that very different institutional structures often seem to be reasonable substitutes in being conducive to growth, both in dissimilar as well as in similar contexts. Narrow definitions of institutional requirements for growth do not, accordingly, seem appropriate" (Engerman and Sokoloff 2003: 28). Hall' and Soskice's theory of the VoC has as its main message that this is the case even for countries at the technological frontier, where the sole source of economic growth is genuine technological innovation. This is even more the case for countries behind the technological frontier.

The closer is the frontier, the stronger is the need for the framework of the Weberian-Schumpeterian capitalist institutions to switch from the technology transfer and emulation to genuine innovation-led growth. But as numerous examples from the past show (Japan, South Korea), sustained industrial policy is essential for forging ahead. However, securing rapid advancement to the technological frontier, state-led capitalism may easily become a victim of its own success, because approaching the technological frontier mistaken decisions in industrial policy become increasingly probable.

Further successful progress of countries that have made it to the frontier of technological advancement can only be guaranteed by private entrepreneurship, as in this case such advancement can only stem from radical (favoured by the institutional background of LME type) or gradual incremental technological innovations (which find a CME institutional environment more beneficial). The greatest service that the state can do for economic advancement in a situation like this is to support fundamental research that produce scientific discoveries, which are largely public goods without any patent cover. However, their flow is necessary in order to create a solid supply of inventions with a potential for commercial application.

The peril of misguided industrial policy is much less in the countries who are far behind the technological frontier. In these countries state action has most chances to direct economic growth along the road leading to an improved structural position in the world economy. So while the best or globally optimal alternative for post-communist POC may be some variety of REC, state capitalism may be second best or the locally optimal institutional choice. Local optimality may derive from the lack of favourable international or geopolitical conditions (like accession to the EU for Baltic and South Eastern European countries) that are needed to sustain REC institutions in an immature or underdeveloped semi-peripheral or peripheral economy.

However, the thesis about the local optimality of state capitalism may apply only to post-communist countries in Central Asia which despite all the change brought by Soviet turbo-modernization were still mainly rural under-industrialized countries at the time when the Soviet Union broke apart. This hardly applies to Belarus which is the sole European case of post-communist state capitalism. Even if state capitalism and order state have preserved its population from the losses of economic welfare suffered by Belarus' neighbours during the first post-communist decade and were essential to preserve the capability for relatively sophisticated industrial production, they do not seem to provide the adequate framework for transition from the absorption to the generation of genuine innovations.

Uniquely, Belarus even displayed the capabilities to autonomously develop complex heavy products and market brands (such as tractor firm "Belarus", and heavy trucks MAZ) that are competitive on the international markets (although only in less demanding sectors that are not dominated by established MNC) (see Myant and Drakohoupil 2011: 304–305). This may be an endowment to become the second (after Slovenia) post-communist country of the corporatist social capitalism. However, this is conditional on substantial market reforms and, most importantly, democratization. Transition to liberal democracy is a necessary condition for joining the first class of the capitalist world system.

3.4. Democracy, Authoritarianism, and Their Adjectives: Outcomes of Political Transformation

I closed the chapter on the modes of exit from communism with the section on the modes of political transformation. This section was short, because there is more consensus among democratic transition analysts than one can find among the experts on the post-communist market transformation. This concluding section on the outcomes of the transformation is short too, because there is much more consensus on how to conceptualize political outcomes of post-communist transformation than the economic ones. Analyzing economic outcomes, one needs to worry both about concepts and about the cases, because there is no established typology of capitalism. There is ample space for proposals of conceptual revision. I used this opportunity by proposing an expanded typology of the modes of economic transition (in 2.2) and REC-centred typology of capitalism (in 3.2–3.3). There is no comparable free space in the analysis of democracy.

Any discussion of political outcomes unavoidably starts from the distinction between democratic and undemocratic regimes. Even if the concept of democracy remains essentially contested, there is a broad consensus about the minimal definition of democracy, and I will simply follow the mainstream. According to the prevailing consensus, democracy is “that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter 1956 (1942) : 269). Its elaborated version is the famous definition of polyarchy by Robert Dahl that is broadly considered as the best minimal definition of democracy. According to this definition, to qualify as a liberal democracy, a polity should be governed by elected officials, have free and fair elections, inclusive suffrage and right to run for office, its citizens must have freedom of expression, access to alternative sources of information, and associational autonomy (see Dahl 1989: 233). If the rule of law and division of powers between branches of government to supplement vertical accountability to voters with horizontal accountability is added, one gets the concept of liberal democracy.

Liberal democracy, so conceived, is what quantitative indexes of democracy measure or stand for as proxies. One of them is the Polity IV index that was selected to find out which post-communist states were liberal democracies by the end of the first decade of transformation and which ones were not. This section contains a discussion of some subtypes of democracy and authoritarianism. They may seem superfluous for the qualitative comparative analysis of political transformation patterns in the next chapter, because this analysis uses only one dichotomous variable “liberal democracy”. However, this analysis includes the discussion of the counterfactual cases, and for this discussion articulate concepts for the full range of the possible outcomes of political transformation will be of great

use. Some of the democracy subtypes concepts will be used for an in depth comparison of Lithuania with most similar cases in the last three chapters.

Subtypes of democracy are constructed by adding various adjectives to democracy (Collier and Levitsky 1997; Collier and Adcock 1999). Some of them produce diminished subtypes of democracy, because they refer to its missing core attributes. These are types of defective or semi-democracy. If citizenship rights are denied to members of certain ethnic, racial, religious, class groups or just one particular sex, we are dealing with ethnic, confessional, racial, class or male democracy. If there are competitive elections (so that incumbents can definitely lose), but a political regime lacks other attributes of liberal democracy or polyarchy, it is a mere electoral democracy.

Delegative democracy is a variety of electoral democracy, whereby if a politician wins in a popular (usually presidential) election, they remain virtually unaccountable until the next election (see O'Donnell 1994). Under delegative democracy, the top official elected is only accountable towards the electorate vertically, there is no horizontal accountability as ensured through mutual control of different branches of government. Usually, delegative democracy happens to be also populist and illiberal. These adjectives best describe political regimes where governments that gained power by winning a free and competitive election pursue policies, which, even though are supported by the masses, are still in violation of the political and civil rights of the minorities, as well as persecute their political opponents.

All of these notions have instances in the post-communist world as well. Some authors attribute some ethnocratic tendencies to democracy in Estonia and Latvia, where a large group of Russian speaking populace, who had immigrated to these countries back in the times of Soviet occupation, still have no citizenship rights even with the second decade of post-communist transformation coming to an end. Delegative democracy was what the "super-presidential" Russia, under Yeltsin (after 1993) and Croatia under Tuđman (in the early 1990s), was. The first post-communist presidents of Ukraine, where democracy was electoral and not delegative, had less authority. All these post-communist democracies were illiberal or populist during some periods of time.

There are different kinds of democracy subtypes where adjectives do not subtract but add attributes to the root concept. So democracies can be unitary or federal; parliamentarian, semi-presidential or presidential. The distinction between unitary and federal democracies is of small interest for the comparative analysis of the political outcomes of post-communist transformation, because only Russia is a (nominally) federal state. However, post-communist states are important test cases for the famous thesis of Juan Linz about the perils of presidentialism for democracy (Linz 1990b). Under parliamentarism, voters elect the legislative

body, which appoints the head of the executive. Under pure presidentialism, the popularly elected president is the sole head of the executive, while under semi-presidentialism there are two heads of the executive: the popularly elected president and the prime minister. Under a presidential-parliamentary form of presidentialism, the president has the legal power to nominate the prime minister, to appoint and dismiss ministers without taking into account the opinion of the parliament. This is not the case under the premier-presidential form, where the president's powers are more limited.

Linz identifies five perils of presidentialism (see Linz 1990b; 1994): (1) the executive and the legislature have competing claims to democratic legitimacy; (2) the fixed terms of office make presidential regimes more rigid than parliamentary systems, because the president's tenure in office is independent of the legislature, and the survival of the legislature is independent of the president; (3) presidentialism encourages a winner-takes-all, loser-loses-all outcome in the political competition (zero-sum game); (4) the style of presidential politics encourages presidents to be intolerant of political opposition; (5) presidentialism personalizes the presidential election, favouring populist candidates, and giving a chance for outsiders and newcomers.

The post-communist experiences of constitution making and its consequences may be considered as confirmation of Linz's thesis. Central European and Baltic countries opted for parliamentarism or a weak version of premier-presidentialism. Most former republics of the Soviet Union adopted presidential-parliamentary, semi-presidentialist or even super-presidentialist constitutions (super-presidentialism involves the power of the president to dismiss the parliament). In some cases (in Central Asia) these constitutions were just a facade or the trappings for the authoritarian regime. These were states with the conservative political mode of the exit from communism (see 2.3). But even in the countries where there was genuine democratization, one of the factors from Linz's peril list may be among the causes why liberal democracy did not consolidate, eroded into semi-democracy or broke down.

A question of considerable interest is whether post-communist liberal democracies differentiate along the same lines which are detected in the research on the old West. In the philosophical discussions on democracy, one finds tension between the ideas of liberty and equality, and the two models of democracy – social liberal democracy and libertarian liberal democracy. In the second variety, citizens have only civil and political rights. Under social liberal democracy, citizens have also social rights. The existence of this divide is confirmed by the inductive statistical typological analysis in the work of Arend Lijphart (see Lijphart 1984; 1999).

The analysis of a selected set of structural characteristics of actually existing liberal democracies yielded two dimensions that Lijphart named the executives–

parties (joint responsibility/power) dimension and the federal-unitary (divided responsibility/power) dimension. The former dimension includes five characteristics: (a) concentration versus dispersion of executive power, (b) power relations between executive and legislative, (c) the structure of the party system, (d) the electoral system, and (e) the interest group system. The federal-unitary dimension also covers five characteristics: (a) state structure (unitary versus federal), (b) legislatures (unicameral versus bicameral), (c) the flexibility of the constitution, (d) judicial review, and (e) central bank autonomy. Next, Lijphart detects two clusters (inductive types), called majoritarian or adversary democracy and consensus democracy. They approximately correspond to libertarian liberal and social liberal democracy as two deductive or theoretical subtypes of liberal democracy. Most intriguingly, country membership in these subtypes broadly correlates with their closeness to LME and CME as ideal types of Weberian-Schumpeterian capitalism in the technological frontier countries. One can assert elective affinity between LME and majoritarian democracy, and that between CME and consensus democracy.

Do post-communist liberal democracies differentiate into majoritarian and consensus democracies, or do they exemplify one of these subtypes? Attempts (see Fortin 2008; Roberts 2006) to apply Lijphart's subtypes to post-communist democracies do not allow us to draw unambiguous conclusions. In some respects (strong judicial power, independent central banks) post-communist liberal democracies resemble consensual democracies. However, in other respects (pluralist system of interest groups, high disproportionality of elections, weak local municipalities) they are more similar to majoritarian (adversary) democracies. The "cocktail" character of the post-communist countries can be partly explained by the domination of the mimetic orientation in many of them (see 2.1). The institutions were "imported" following fashions in constitutional law that prevailed among Western experts in the late 1980s, when independent central banks and a strong judiciary were a "must". Therefore, many formal institutions of the post-communist liberal democracies are consensual, while the political process inside these institutions is strongly adversary: political parties fight do-or-die for survival, and the membership in the set of the politically effective parties is rapidly changing. So, although formal institutions of post-communist democracy favour the development of the consensual social liberal democracy, libertarian and majoritarian features strongly mark its present actual content.

The subtypes of liberal democracy that are actively discussed in the current democracy theory include participatory, deliberative and advanced democracy. They may be important in the discussion of the prospects and ways of how to make post-communist democracy deeper or to enhance its quality. But this is relevant only after democratic transition is over, while my focus is on the out-

comes of its first decade. To take into account all its diversity, the rich vocabulary of democracy theory is not sufficient, because part of the post-communist world lives not under democracy, but under authoritarian regimes, that can also be differentiated into several subtypes (see Carothers 2002; Diamond 2002; Howard and Roessler 2006; Levitsky and Way 2002; et al.).

In post-communist states there are no military dictatorships which together with traditional monarchies (surviving in some Arab countries) are classified by experts as politically closed authoritarianism (Diamond 2002: 25; see also Howard and Roessler 2006: 365–367). These regimes do not derive their legitimation from the popular vote. Rigged elections may be staged in the sultanistic regimes. This is another variety of the politically closed authoritarianism. Sultanistic authoritarianism is characterized by extreme personalization, corruption, nepotism, arbitrariness and grotesque personal cult of the dictator. Turkmenistan under Saparmurat Niyazov (1991–2006) is a case in point.

Uzbekistan under Islam Karimov, Kazakhstan under Nursultan Nazarbayev, Azerbaijan under the Aliyev dynasty, and Belarus under Aleksandr Lukashenko are cases of a different subtype of hard authoritarianism. This is hegemonic electoral authoritarianism. Under politically closed authoritarianism, political parties are outlawed (except the governing party). This is not the case under hegemonic electoral authoritarianism, where opposition parties are legal. However, their activities are strictly limited and prosecuted. The most important of those limitations is the restriction of the freedom of speech, as the government has a monopoly on radio and television. Another significant limitation is the restricted freedom for the real opposition to run elections. Candidates whom the government considers to pose serious competition are prevented from taking part in elections by fabricating criminal cases or taking violent actions against them, such actions carried out by the secret services of the regime or members of the criminal world that they control.

Competitive electoral authoritarianism is a soft variety of authoritarianism or semi-authoritarianism (Diamond 2002: 25–26). Under this variety, the government has no monopolist control over the media. There is at least one independent TV or radio channel and some independent newspapers. The government punishes such unruly media through harassment from the tax authorities and judicial persecution seeking to ruin it financially, yet it is unable to attain this goal definitively. When elections come, the government cannot achieve their wanted goal that the lists only contain its own candidates (including fake opposition). Still, by controlling the progress of the election, and the tallying of votes in particular, the government can guarantee itself the “right” outcome of voting. As far as the government is concerned, the most hazardous moment is when the voting is over and the opposition, often quite reasonably, starts questioning the fairness of the

election and invites its supporters to attend mass protestations. A situation like that can even lead to the collapse of an authoritarian regime, as happened in the “coloured revolutions” in Georgia, Kyrgyzstan and Serbia. This kind of revolution can only happen under the conditions of competitive rather than hegemonic (and definitely not politically closed) authoritarianism.

As the coloured revolutions are a phenomenon of the second rather than first decade of post-communist transformation, suffice to say that when it comes to appraising them, what matters most are the practices of the governing political powers: are the new governments using the same authoritarian methods to remain in power, are they respecting freedom of speech and not persecuting the opposition? Are the elections that they staged any fairer than those that have led to protests, which, in their own turn, have become revolutions that allowed these forces to ascend to power? Are they prepared to surrender their power peacefully should the opposition win in the next election?

After the second decade of post-communist transformation, these questions can be answered positively only in the case of Serbia and Ukraine. With the former, unconsolidated liberal democracy was created, and Ukraine’s “orange revolution” prevented the erosion of democracy into a competitive electoral or even closed authoritarianism. Whereas in Georgia, the pro-Russian authoritarian rule of Eduard Shevardnadze has yielded to the pro-American semi-authoritarian regime of Mikheil Saakashvili who uses even harsher methods to rule the country as compared to his predecessor. Of course, those methods have allowed Saakashvili to significantly increase the (infrastructural) powers of the state and to curb corruption. The developments in Kyrgyzstan took quite an opposite turn as yet another revolution (after the Kurmanbek Bakiyev’s regime was overthrown in 2010) has resulted in the near breakdown of the Kyrgyzstan state. A fuzzy case is Russia after 2000 which continues to straddle the line between semi-democracy and soft authoritarianism.

Said questions about the behaviour of post-revolution governments are important to answer the further question of whether a democracy is consolidated. Democratic consolidation is the second phase of democratic transformation, which starts after the first free election takes place. How then can one identify a consolidated democracy? According to the famous two turnover test of Samuel Huntington, “a democracy can be viewed as consolidated if the party or group that takes power in the initial election at the time of transition loses a subsequent election and turns over power to those election winners, and if those election winners then peacefully turn over power to the winners of the later elections” (Huntington 1991: 266–267). According to the famous (even if metaphorical) definition of Juan Linz, democracy is consolidated when it becomes the “only game in town” (Linz 1990a: 156). No influential political force questions the rules and outcomes

of the democratic political process. According to Andreas Schedler, democratic consolidation “should refer to expectations of regime continuity – and to nothing else. Accordingly, the concept of a ‘consolidated democracy’ should describe a democratic regime that relevant observers expect to last well into the future – and nothing else” (Schedler 1998: 103).

The expectation of persistence of liberal democracy (no breakdown or erosion of democracy is expected) may be grounded in different reasons that are systematically explicated in alternative theories of democratic consolidation. Some of them attach importance to structural factors. These are the conditions that occur or change only over a long period of time and are beyond the will of the people who live and operate under such conditions or the decisions of political actors (for instance, the economic and cultural level, ethnic and cultural homogeneity of the population, geopolitical situation, existence of absence of democratic traditions). Others place emphasis on agency, with special attention paid to the constitutional design of basic political institutions. This is the main message of Linz’s theory about the perils of presidentialism.

On all three counts (by Huntington, Linz, and Schedler), post-communist democracies in Central Europe and the Baltic States were already consolidated by the end of the first decade. Their “democraticness” was painstakingly evaluated before the accession to the EU. After the arrival to this safe heaven, the persistence of liberal democracy in these states is beyond reasonable doubt. Of course, there cannot be complete safety for liberal democracy even in the most advanced countries over the long term. But the democratic transition theory is no more sufficient as the framework for the analysis of the current state, problems, and trends of liberal democracy in the “new West”.

Therefore, in the last chapter that deals with political developments in Lithuania during its second post-communist decade, this framework will be used intermittently with the concepts developed by the researchers working on the quality of liberal democracy. As for systematic qualitative comparative analysis of the pathways and their patterns in the post-communist transformation during its first decade, then our conceptual equipment is already complete.

CHAPTER 4

Pathways and Patterns of Post-Communist Transformation

This chapter is central to the first part and ultimately to the whole book, presenting the survey of all 64 pathways of post-communist transformation and the derivation of the 10 patterns discernible in these pathways. In the first section, the workings of the multi-value qualitative comparative analysis (mvQCA) are explained, which is the analytical tool to explore the full range of pathways of post-communist transformation and for the pattern search. After the derivation of preliminary patterns by means of Boolean minimization, their counterfactual assumptions are scrutinized in the second section. The conclusions of the counterfactual analysis are used to expand the initial data set with assumed or imaginary cases. The pattern search is repeated with an expanded data set. After all logical space of the conceptual possibilities of post-communist transformation has been explored by these shuttle movements between patterns and cases (empirical and merely assumed), the third section presents 10 final patterns for the emergence or nonemergence of liberal democratic capitalism (liberal democracy + REC), REC, POC, state capitalism, liberal democracy after the first post-communist decade. In the concluding fourth section, these patterns are discussed from the viewpoint of the philosophy of science (can they be considered as laws of post-communist transformation?). The chapter ends with a profile of Lithuania in terms of the patterns screened from all ways of post-communist transformation.

4.1. Comparative Qualitative Analysis as a Method of Theory Building

After having discussed in detail concepts which are necessary for a description of the initial conditions, modes and outcomes of post-communist transformation, we can address the basic task of the of post-communist transformation theory: to systematically examine the post-communist transformation paths, compare them and formulate on this basis the generalizations with prognostic power. A specific post-communist transformation pathway is defined by a certain post-communist transformation orientation, a specific mode of economic and that of political exit

from communism, and by the specific outcome. Whether such a combination of orientation, economic and political exit modes preserves explanatory power also for longer (20, 30, ...) time periods, is a separate research problem which this book does not deal with. Three independent variables used for the explanation of the outcomes of the first decade may be not sufficient for the explanations of the outcomes over the longer run. The pattern is a generalization over pathways, each pattern covering a set of similar pathways.

As stated above (1.3), the number of pathways depends on how many variables referring to any conditions that may affect the outcome are used, and how many values each variable can have. In my case, this is $4^3 = 64$. Not all conceptual distinctions made in chapters 2 and 3 will be used for QCA analysis. For example, I will not discuss which conditions decided upon the transformation of the communist political system into one of the authoritarianism varieties discussed before. However, this may be done using my variables and approach.

In this present chapter, I will limit the scope of my analysis to 5 explanatory problems which are already formulated in the list of questions closing the first chapter (see 1.3). These are about the pathways to (1) liberal democratic capitalism, (2) rational entrepreneurial capitalism (REC), (3) political oligarchic capitalism (POC), (4) state capitalism, and (5) liberal democracy. Are there any patterns in these pathways?

I will start from the question pertaining to the pattern in the pathways of the rapid (in just ten years) successful exit from communism. One can find a full list of these pathways (together with lists of other pathways to be screened for patterns) by analyzing table 4.1. It is an expanded version of table 1.2. Both tables contain not only really observed cases, but also logically possible or imaginary ones. The names of these cases are constructed according to the example provided by the nomenclature of organic chemistry. In this nomenclature, every possible organic compound should have a name from which its structural formula can be read. Prefixes, suffixes and infixes are used to describe the type and position of functional groups in the compound. In my nomenclature of the transformation pathways, the names of a representative case consist of the roots or first letters of the names of the four values of three variables. The name of each case begins with the first letters of the name of the value of the variable "orientation of post-communist transformation" for a given case. Then the first letters of the name of the values of the variable "political mode of the exit from communism" are added. The name is ready after the first letters from the name of the value of the variable "economic mode of the exit from communism" are joined. So the name "Contpactmin" refers to a country with prevalent continuational orientation, "refolution" (or pacted transition) as mode of the political exit from communism and minimal market reforms.

There are three differences between tables 1.2 and 4.1. Firstly, the second table is enlarged by columns for variables referring to REC, POC, state capitalism and liberal democracy. Secondly, in table 1.2 the order in which cases are listed is set by the combinatorial logic to exhaust all possible combinations of initial conditions. Table 4.1 starts with really observed instances¹ that are alphabetically ordered. Then the imaginary or unobserved cases are listed. Their order reflects the sequence in which the values of each 5 outcome variables are discussed and introduced for imaginary cases in the second and subsequent sections. Introducing table 1.2, I have assumed the reader's patience to read chapters 2 and 3 for information about the values of variables for specific real cases. Now I am asking for patience to read this chapter to the end for information about reasons how variable values are attributed to specific imaginary cases. In table 1.3, a question mark is used instead of the value of outcome variable for unobserved case. In table 4.1, they have one of the two values.² This is third difference between the two tables.

Table 4.1. Multi-value QCA data table for pathways of post-communist transformations.³

	Country	orientation	poli-mode	econ-mode	libde-cap	ratent-cap	poli-garcap	state-cap	libdem
1	Albania	0	2	1	0	0	1	0	0
2	Armenia	0	2	1	0	0	1	0	0
3	Azerbaijan	0	2	1	0	0	1	0	0
4	Belarus	0	1	0	0	0	0	1	0
5	Bulgaria	0	1	1	0	0	1	0	1
6	China	3	0	2	0	1	0	0	0
7	Croatia	2	1	1	0	0	1	0	0
8	Czech Republic	2	2	3	1	1	0	0	1
9	East Germany	2	2	3	1	1	0	0	1
10	Estonia	1	2	3	1	1	0	0	1
11	Georgia	0	2	1	0	0	1	0	0
12	Hungary	2	3	2	1	1	0	0	1
13	Kazakhstan	0	0	1	0	0	1	0	0

¹ Strictly speaking, one should distinguish between cases and instances. Cases are types of instances defined by the configurations of conditions. Each case can have many empirically observed instances. I will use "case" both in the sense of type and of the instance (token), because this allows for less cumbersome expression and does not seem to produce any harmful confusions. However, I will use the distinction between cases and instance for clarifications and vindications at the very end of this chapter.

² Let me remind the reader that outcome variables are coded dichotomously because of both conceptual and technical reasons. See 1.3.

³ This data set is identical with the data set Postcmtr105.csv that is used for final screening of the patterns in the transformation pathways. See <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr105.csv> 23.08.2011.

14	Kyrgyzstan	0	0	1	0	0	1	0	0
15	Latvia	1	2	3	1	1	0	0	1
16	Lithuania	1	3	3	1	1	0	0	1
17	Moldova	0	1	1	0	0	1	0	1
18	Mongolia	0	1	1	0	0	1	0	1
19	Poland	2	3	3	1	1	0	0	1
20	Romania	0	1	1	0	0	1	0	1
21	Russia	2	1	3	0	0	1	0	0
22	Serbia	1	0	0	0	0	1	0	0
23	Slovakia	2	2	2	1	1	0	0	1
24	Slovenia	3	3	2	1	1	0	0	1
25	Tajikistan	0	2	0	0	0	1	0	0
26	Turkmenistan	0	0	0	0	0	0	1	0
27	Ukraine	0	1	1	0	0	1	0	1
28	Uzbekistan	0	0	0	0	0	0	1	0
29	Vietnam	3	0	2	0	1	0	0	0
30	<i>Contpactmin</i>	0	3	0	0	0	0	1	1
31	<i>Contpactpart</i>	0	3	1	0	0	1	0	1
32	<i>Contpactgrad</i>	0	3	2	1	1	0	0	1
33	<i>Contpactshock</i>	0	3	3	1	1	0	0	1
34	<i>Contrevolgrad</i>	0	2	2	0	0	1	0	0
35	<i>Restrevolmin</i>	1	2	0	0	0	0	1	0
36	<i>Restpactmin</i>	1	3	0	0	0	0	1	1
37	<i>Imipactmin</i>	2	3	0	0	0	0	1	1
38	<i>Inovpactmin</i>	3	3	0	0	0	0	1	1
39	<i>Restrevolpart</i>	1	2	1	0	0	1	0	0
40	<i>Restrevolgrad</i>	1	2	2	1	1	0	0	1
41	<i>Restpactpart</i>	1	3	1	0	0	1	0	1
42	<i>Restpactgrad</i>	1	3	2	1	1	0	0	1
43	<i>Imipactpart</i>	2	3	1	0	0	1	0	1
44	<i>Inovpactpart</i>	3	3	1	0	0	1	0	1
45	<i>Inovpactshock</i>	3	3	3	1	1	0	0	1
46	<i>Inovrevolgrad</i>	3	2	2	1	1	0	0	1
47	<i>Contautorgrad</i>	0	0	2	0	0	0	1	0
48	<i>Contautorshock</i>	0	0	3	0	0	1	0	0
49	<i>Contrefgrad</i>	0	1	2	0	0	0	1	0
50	<i>Contrefshock</i>	0	1	3	0	0	1	0	0
51	<i>Contrevolshock</i>	0	2	3	0	0	1	0	0
52	<i>Restautorpart</i>	1	0	1	0	0	1	0	0
53	<i>Restautorgrad</i>	1	0	2	0	1	0	0	0
54	<i>Restautorshock</i>	1	0	3	0	1	0	0	0
55	<i>Imiautormin</i>	2	0	0	0	0	0	1	0
56	<i>Imiautorpart</i>	2	0	1	0	0	1	0	0
57	<i>Imiautorgrad</i>	2	0	2	0	1	0	0	0

58	<i>Imiautorshock</i>	2	0	3	0	1	0	0	0
59	<i>Inovautormin</i>	3	0	0	0	0	0	1	0
60	<i>Inovautorpart</i>	3	0	1	0	0	1	0	0
61	<i>Inovautorshock</i>	3	0	3	0	1	0	0	0
62	<i>Restrefmin</i>	1	1	0	0	0	0	1	0
63	<i>Imirefmin</i>	2	1	0	0	0	0	1	0
64	<i>Imirevolmin</i>	2	2	0	0	0	0	1	1
65	<i>Inovrefmin</i>	3	1	0	0	0	0	1	1
66	<i>Inovrevolmin</i>	3	2	0	0	0	0	1	1
67	<i>Restrefgrad</i>	1	1	2	1	1	0	0	1
68	<i>Imirefgrad</i>	2	1	2	1	1	0	0	1
69	<i>Restrefpart</i>	1	1	1	0	0	1	0	1
70	<i>Restrefshock</i>	1	1	3	1	1	0	0	1
71	<i>Inovrefpart</i>	3	1	1	0	0	1	0	1
72	<i>Inovrefgrad</i>	3	1	2	1	1	0	0	1
73	<i>Inovrefshock</i>	3	1	3	1	1	0	0	1
74	<i>Imirevolpart</i>	2	2	1	0	0	1	0	1
75	<i>Inovrevolpart</i>	3	2	1	0	0	1	0	1
76	<i>Inovrevolshock</i>	3	2	3	1	1	0	0	1

Variables and their values: *orientation* – orientation of the post-communist transformation:

0 – continuative, 1 – restitutorial, 2 – mimetic (emulation, imitation), 3 – innovation.

politmode – mode of political transformation: 0 – conservative (authoritarian regime survives), 1 – democratization by reforms from above, 2 – democratization by revolution from below, 3 – refolution (democratization via the pact between the old power elite and counter-elite).

econmode – mode of economic transformation: 0 – minimal reforms, 1 – partial (biased) reforms, 2 – gradual and incremental reforms, 3 – fast radical reforms (shock therapy).

libdecap – liberal democratic capitalism: 1 – created in the first post-communist transformation decade, 0 – not established in the first post-communist transformation decade.

ratentcap – rational entrepreneurial capitalism: 1 – created in the first post-communist transformation decade, 0 – not established in the first post-communist transformation decade.

poligarcap – political oligarchic capitalism: 1 – communist economic system was transformed into the political oligarchic capitalism, 0 – a communist economic system was not transformed into political oligarchic capitalism.

statecap – state capitalism: 1 – a communist economic system was transformed into state capitalism, 0 – communist economic system was not transformed into the state capitalism.

libdem – liberal democracy: 1 – a communist political system was transformed into a liberal democracy, 0 – a communist political system was not transformed into liberal democracy.

I will start the multi-value comparative qualitative analysis (mvQCA) of the transformation pathways from the question of what initial conditions combination were sufficient for liberal democratic capitalism to become reality after the first post-communist transformation decade. Which steps, and in what order, have to be carried out after opening the data file, one can read in the TOSMANA educational literature, which (like the program itself) is freely available on the

internet.⁴ We will start with the data file that contains only empirically observed cases.⁵ The reader is invited to repeat all steps of analysis on their own. Therefore, I switch from “I” to “we”.

We start from the production of the truth table, which is alternatively referred to as the configuration table (see table 4.2). This table only represents original data in the more economical or compact way. This table contains a list of the empirically observable pathways of post-communist transformation. They are far less (17) than the number of combinatorially possible pathways (64), which means that empirical reality is poor in contrast to theoretical and reflective thought that has it as the object of investigation. On the other hand, the number of combinations is less than the number of observed cases (29). This means that not all countries departed from communism along their individual way.

Table 4.2. The table of configurations for the analysis of the liberal democratic capitalism emergence pathways. Constructed using the program TOSMANA.

Orientation of transformation	Mode of political transformation	Mode of economic transformation	Outcome: liberal democratic capitalism	Instances
0	2	1	0	Albania, Armenia, Azerbaijan, Georgia
0	1	0	0	Belarus
0	1	1	0	Bulgaria, Moldova, Mongolia, Romania, Ukraine
3	0	2	0	China, Vietnam
2	1	1	0	Croatia
2	2	3	1	Czech Republic , East Germany
1	2	3	1	Estonia, Latvia
2	3	2	1	Hungary
0	0	1	0	Kazakhstan, Kyrgyzstan
1	3	3	1	Lithuania
2	3	3	1	Poland
2	1	3	0	Russia
1	0	0	0	Serbia
2	2	2	1	Slovakia
3	3	2	1	Slovenia
0	2	0	0	Tajikistan
0	0	0	0	Turkmenistan, Uzbekistan

⁴ See <<http://www.tosmana.net/>> 23.08.2011.

⁵ This is the data file Postcmtr100.csv. See <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr100.csv> 23.08.2011.

Next we find logical formula (1), which represents all the empirically observable pathways of the emergence of the liberal democratic capitalism. It is the so-called Boolean sum including Boolean products. These products are equivalent to conjunctions (logical operator usually expressed by “and” in everyday speech) in logic. The logical equivalent of the Boolean sum is inclusive disjunction which is expressed in everyday speech by “or”. Each component of the sum represents one of the seven pathways of the rapid (in ten years) emergence of the liberal democratic capitalism. There stand out two ways which were travelled by more than one state. Firstly, this is ideologically emulative (mimetic), politically revolutionary, economy shock therapy way of most economically and culturally modern communist countries – the Czech Republic and East Germany. Secondly, this is the ideologically restitutional, politically revolutionary, economy shock therapy way of Estonia and Latvia.

- (1) orientation {2} * politmode {2} * econmode {3} Czech Republic, East Germany; 2
 + orientation {1} * politmode {2} * econmode {3} Estonia, Latvia; 1
 + orientation {2} * politmode {3} * econmode {2} Hungary; 2
 + orientation {1} * politmode {3} * econmode {3} Lithuania; 0
 + orientation {2} * politmode {3} * econmode {3} Poland; 1
 + orientation {2} * politmode {2} * econmode {2} Slovakia; 3
 + orientation {3} * politmode {3} * econmode {2} Slovenia; 2
 = libdecap {1}.

To the right of the each Boolean product one finds the names of countries and numbers. Numbers are measures of the so-called Boolean distances between a given path and that which was used by Lithuania to extricate from communism (see e.g. De Meur and Berg-Schlosser 1994). They are measured by counting the differences between the selected case and the remaining cases with the same outcome. Repeating my analysis a reader can measure the Boolean distances of the cases they are most interested in. In my book, the search for the patterns in the pathways is the first stage in the investigation of the post-communist transformation in Lithuania. Therefore, my country receives preferential treatment already in the pathways and patterns analysis.

We see that the differences were least between the Lithuanian way and another two ways: that of Estonia and Latvia; and that of Poland. Because of a common history and geographical proximity this could be expected. However, it should be noted that the Lithuanian way differs from these most similar cases in different ways: from Poland – by the ideological orientation of the post-communist transformation; from Estonia and Latvia – by the mode of democratization. At the time when communism collapsed in Poland, the mimetic orientation was stronger than restitutional one, and in Lithuania it was the opposite. In Estonia and Latvia

the communist elite were removed en masse from positions of power after the de facto lustration. In Lithuania, the implicit ex-communist and anti-communist elite pact survived.

However, it may be surprising that Slovakia's way was most different from the Lithuanian road. It was inspired not by restitutional, but by the mimetic orientation. The communist elite were removed from power in revolutionary mode (as in the neighbouring Czech Republic), but transition to a market economy (after the "divorce" with the Czech Republic) was carried out in a more gradual way, in comparison with Lithuania and the Czech Republic, which was the model for Lithuania in carrying out rapid privatization.

All these findings may be relevant for discussions about the development prospects of the post-communist liberal democratic countries. It is likely that Lithuania's development trajectory will be close to that in the most similar cases, but not to those of the most different cases. Although the Slovak Republic was not reputed as one of the leaders of post-communist transformation in the first decade of post-communist transformation, it outbid its neighbours during the second decade due to success in attracting substantial foreign direct investment.

The search for most similar and most different cases can involve not only positive, but also negative cases. These are the ways of post-communist transformation which did not lead to liberal democratic capitalism by the end of the first decade. So one can say that they were failures of the *rapid* post-communist transformation. They are covered by formula (2).

- (2) orientation {0} * politmode {2} * econmode {1} Albania, Armenia, Azerbaijan, Georgia; 3
 + orientation {0} * politmode {1} * econmode {0} Belarus; 3
 + orientation {0} * politmode {1} * econmode {1} Bulgaria, Moldova, Mongolia, Romania, Ukraine; 3
 + orientation {3} * politmode {0} * econmode {2} China, Vietnam; 3
 + orientation {2} * politmode {1} * econmode {1} Croatia; 3
 + orientation {0} * politmode {0} * econmode {1} Kazakhstan, Kyrgyzstan; 3
 + orientation {2} * politmode {1} * econmode {3} Russia; 2
 + orientation {1} * politmode {0} * econmode {0} Serbia; 2
 + orientation {0} * politmode {2} * econmode {0} Tajikistan; 3
 + orientation {0} * politmode {0} * econmode {0} Turkmenistan, Uzbekistan; 3
 = libdecap {0}.

As in formula (1), to the right of each Boolean product one finds the names of countries covered by them and the Boolean distances from the Lithuanian way to liberal democratic capitalism, which was successful (orientation {1} * politmode {3} * econmode {3}) = libdecap {1}). It is therefore not surprising that the Lithuanian way differs from most failures of rapid transformation in three

respects. Only when the Lithuanian road is compared with Serbian and Russian ways, the Boolean distance reduces to 2. It would be very interesting, if among the failures there was one with Boolean distance from the Lithuanian way equal to one. Then, basing on the Mill's difference rule one could argue that this sole difference in the initial conditions was crucial for the success of post-communist transformation in Lithuania.

The Boolean formulas (1) and (2) only provide a compact description of the ways of post-communist transformation that were in fact observed. However, the goal of the QCA is not only to describe the diversity of empirical reality, but also to answer the question of why an outcome of post-communist transformation was such, and not a different outcome. Comparing initial conditions of the successful roads, we observe that there is no single condition which could be found in all configurations. This means that there were no conditions that could be classified as a necessity for the success of the rapid construction of liberal democratic capitalism. This turned out to be possible under mimetic, restorative, and innovative orientation; both given democratic revolution from below, and under an explicit or implicit pact between the old ex-communist elite and the new anti-communist counterelite. This was possible both under shock therapy, and under incremental (gradual) reforms.

Comparing roads with negative outcomes, one again cannot identify any single condition that could be qualified as necessary for the failure of the rapid transition. The construction of the "good" capitalism (liberal democratic capitalism) could fail under continuative, restorative, mimetic, and even under innovative orientation (China and Vietnam, where REC without liberal democracy was created). Failures occurred both under democratization from above, and under revolution removing the communist elite (if only temporarily, as happened in Azerbaijan, where ex-communists came back to power after the defeat in the war against Armenia), and when the very communist elite started democratization from the top (as in the Russian case). Both gradual and shock therapy style reforms could fail.

Both failures and successes of rapid post-communist transformation were conditioned not by single conditions, but by combinations of conditions which are specified by the elements of the overall Boolean sums (1) and (2). However, this does not mean that all conditions have been causally relevant to the success or failure of post-communist transformation. QCA computer programs are furnished with a function that helps to separate causally significant conditions from those which had no causal significance. This is the search for minimal Boolean formula. In search of this formula, the computer program performs Boolean minimization according to an algorithm. This is the removal of the redundant conditions from the initial formulas, replacing them with a more compact and

economical formula sufficient to cover and explain all cases with the outcome of interest.

Let me explain the principle of Boolean minimization by the following example for dichotomic variables. Assume we have Boolean formula which describes a couple of QCA table of configurations rows: $(A \{1\} * B \{0\} * C \{1\}) = Y \{1\}$ and $(A \{1\} * B \{0\} * C \{0\}) = Y \{1\}$. This formula can be minimized by replacing it with the more concise formula $(A \{1\} * B \{0\}) = Y \{1\}$. The variable C is eliminated on the grounds that the outcome variable has the same value, both when the value of C is 1, and when the value is 0. This means that the condition C does not affect the Y value. Generally (extending to politomic variables), Boolean minimization rule can be formulated as follows: if two Boolean expressions with the same outcome differ only by the values of the one variable they include, then that variable can be eliminated by replacing both expressions compared by a more concise expression that contains only variables with identical values. This shorter and more concise expression is called the prime implicant. It may happen that the same initial Boolean expressions can be summarized or condensed by the different prime implicants. In this case, the investigator, basing on substantive knowledge of the field, should decide which of them is more appropriate. Boolean minimization procedure is iterative: it can be performed with the prime implicants – as long as there remains nothing to minimize.

Boolean minimization can be considered as the method of the inductive generalization of the initial data. It is important to point out that one can realistically expect to achieve Boolean minimization, involving only really observed cases, only if the variables are binary (dichotomic).⁶ If the variables are multi-value (this is our case), Boolean minimization can be expected to simplify initial expressions only if all logically possible cases are included (i.e. involving logically

⁶ Minimization works only if an outcome is the same for the full range of the values of a given variable. Without such constraint, we could perform Boolean minimization with all elements of the formulas (1) and (2), that differ among themselves by Boolean distance equal to one. For example, we can attempt to do this with a formula describing the Latvian and Estonian way of post-communist transformation (orientation {1} * politmode {2} * econmode {3}), and that which describes the Lithuanian way (orientation {1} * politmode {3} * econmode {3}). Because these formulas differ only by value of the variable politmode, one is tempted to replace them with the prime implicant (orientation {1} * econmode {3}). However, this would work only if our observations include the cases described by formulas (orientation {1} * politmode {0} * econmode {3}) = libdecap {1} and (orientation {1} * politmode {1} * econmode {3}) = libdecap {1}. In want of such observations, we should find reasons to accept counterfactual assumptions expressed by these formulas to derive (orientation {1} econmode {3}) = libdecap {1}. Working with politomic variables, one can expect to succeed in Boolean minimization without making counterfactual assumptions, only if the observations are rich and variegated, including all or almost all logically possible configurations of initial conditions. If the ratio of the logically possible configurations to observed ones is high (and this is our situation), then assumptions about unobserved cases are mandatory for simplification by Boolean minimization.

possible but empirically unobserved cases). Otherwise, the Boolean formula usually only compresses the raw data table into the configuration table, but does not simplify it.

Therefore, the software itself both encourages and compels the user to theorize: formulate statements including into their scope not only empirically observed, but all conceptually possible cases. As was stated above (see 1.3), good theory should be determinate: it has to indicate what the outcomes would have been under different combinations of initial conditions, even ones that have never been observed. Empirically observed cases constrain a theory, but they do not exhaust it, because such a theory is epistemically more valuable when it has something to say about cases that have never before been observed.

It has already been pointed out, that the computer software cannot construct a theory of post-communist transformation on its own. The computer just searches for a maximally elegant pattern: short and concise Boolean formula, but cannot assess the substantial adequacy of the assumptions about the unobserved cases. To make matters worse, the program does not have memory: the counterfactual assumptions about unobserved cases are made regardless of the assumptions that were made earlier. Therefore, the assumed scripts of the minimal formulas for the positive and negative outcomes may contradict each other.

When the scripts are assessed from the substantive point of view, it is reasonable to start from such contradictory scripts, and judge which outcome of a specific configuration – positive or negative – is more likely to occur. After judgment is made, it should be recorded by adding to the data file a fictive or unobserved case and inscribing the values of dependent variables that are most likely according to the best judgment. In this way, the “freedom of space” of the program to experiment with scripts is restricted. After resolving contradictions, one should check remaining assumed scripts, to assess their plausibility and supplement the data file with new imaginary or unobserved cases and most likely scripts.

To save space, we will be judging at the same time the comparative likelihood of all outcomes of interest for the unobserved case under consideration for all five explanatory problems. (1) Under given specific configuration of initial conditions, is it most likely that after a decade the communist system would be transformed into liberal democratic capitalism (the communist economic system will be transformed into REC, and political – into liberal democracy)? (2) If not, then is at least a partial success of rapid transformation likely: the emergence of REC without liberal democracy? If the failure of the rapid transformation of communist economic system into REC is more likely than success, what is most likely – (3) political oligarchic or (4) state capitalism? Finally (5), is rapid emergence of liberal democracy more likely under a given configuration than some other outcome of political transformation?

The most reliable basis for response to such questions is the comparison of the hypothetical with the most similar empirically observed cases. The similarity can be accurately assessed, counting Boolean distances between unobserved and observed cases. If there are empirically observed cases that differ from the counterfactual cases by the value of only one variable, one can perform a rather realistic thought experiment (*Gedankenexperiment*). In such an experiment, one changes the actual value of a variable for an observed case and then asks what difference this would make. After doing such thought experiment with an empirically observable case (e.g. Poland and Ukraine), we would be able to make reasonable guesses about the outcome of post-communist transformation in an imaginary case that is different from Poland or Ukraine just in one respect.

Unfortunately, such relatively solid foundation for the counterfactual speculations can be found not for all unobserved or imaginary cases. Among them there are those which differ from the empirically observed cases in more than one respect. Judgments about the outcomes of post-communist transformation for such cases are most speculative and uncertain. But most hopes are also uncertain, although we cannot live without them. The assumptions about such cases (very distant from empirically observed reality) describe dreams, hopes and fears about pathways of tranformation that could be much worse or better than those that we did in fact observe.

4.2. From Empirically Observed to Counterfactual Ways of Post-Communist Transformation

What are then maximally generalized logical formulas proposed by TOSMANA and what are the counterfactual assumptions of these formulae for the first problem – about conditions of rapid success in transition to liberal democratic capitalism?

TOSMANA offers choices between two minimal formulas: (3) and (4). Each of these choices assumes 15 scripts about unobserved cases. Their initial conditions are listed in the second columns in tables 4.3 and 4.4. The first column contains the order number. In the third, the names of unobserved cases that are referents in counterfactual assumptions are inscribed. In the fourth column, one finds the names of most similar really observed cases. We will consider as such only the cases that differ from their imaginary or unobserved counterparts by Boolean distance equal to one. If there are no such cases among the observations, no most similar empirical cases are listed. If we considered as such the cases that differ from an imaginary case by Boolean distance equal to 2, we would have too many “most similar” cases for the unobserved cases to receive any benefits from the speculations about the outcomes of the post-communist transformation after its first ten years.

For the reader's convenience, together with the names of empirical cases most similar to given imaginary case, I report also the values of our three independent variables for them. The first number is the value of the variable "orientation of post-communist transformation", the second – that of the variable "political mode of the exit from communism", the third one – the value of the variable "economic mode of the exit from communism".

(3) $\text{politmode}\{3\} + \text{orientation}\{1, 2\} \text{politmode}\{2\} = \text{libdecap}\{1\}$

Table 4.3. Unobserved cases in the assumed scripts of the preliminary pattern for successful rapid transition to liberal democratic capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	$\text{orientation}\{0\}\text{politmode}\{3\}\text{econmode}\{0\}$	<i>Contpactmin</i>	Belarus (010), Turkmenistan and Uzbekistan (000), Tajikistan (020)
2	$\text{orientation}\{0\}\text{politmode}\{3\}\text{econmode}\{1\}$	<i>Contpactpart</i>	Kazakhstan and Kyrgyzstan (001), Albania, Armenia, Azerbaijan and Georgia (021)
3	$\text{orientation}\{0\}\text{politmode}\{3\}\text{econmode}\{2\}$	<i>Contpactgrad</i>	Hungary (232), Slovenia (233)
4	$\text{orientation}\{0\}\text{politmode}\{3\}\text{econmode}\{3\}$	<i>Contpactshock</i>	Lithuania (133), Poland (233)
5	$\text{orientation}\{1\}\text{politmode}\{2\}\text{econmode}\{0\}$	<i>Restrevolmin</i>	Serbia (100), Estonia and Latvia (123)
6	$\text{orientation}\{1\}\text{politmode}\{2\}\text{econmode}\{1\}$	<i>Restrevolpart</i>	Estonia and Latvia (123)
7	$\text{orientation}\{1\}\text{politmode}\{2\}\text{econmode}\{2\}$	<i>Restrevolgrad</i>	Estonia and Latvia (123), Slovakia (222)
8	$\text{orientation}\{1\}\text{politmode}\{3\}\text{econmode}\{0\}$	<i>Restpactmin</i>	Lithuania (133), Serbia (100)
9	$\text{orientation}\{1\}\text{politmode}\{3\}\text{econmode}\{1\}$	<i>Restpactpart</i>	Lithuania (133)
10	$\text{orientation}\{1\}\text{politmode}\{3\}\text{econmode}\{2\}$	<i>Restpactgrad</i>	Lithuania (133)
11	$\text{orientation}\{2\}\text{politmode}\{3\}\text{econmode}\{0\}$	<i>Imipactmin</i>	Hungary (232), Poland (233)
12	$\text{orientation}\{2\}\text{politmode}\{3\}\text{econmode}\{1\}$	<i>Imipactpart</i>	Hungary (232), Poland (233)
13	$\text{orientation}\{3\}\text{politmode}\{3\}\text{econmode}\{0\}$	<i>Inovpactmin</i>	Slovenia (332)
14	$\text{orientation}\{3\}\text{politmode}\{3\}\text{econmode}\{1\}$	<i>Inovpactpart</i>	Slovenia (332)
15	$\text{orientation}\{3\}\text{politmode}\{3\}\text{econmode}\{3\}$	<i>Inovpactshock</i>	Slovenia (332)

The alternative minimal formula for the conditions of the rapid transformation of communism to liberal democratic capitalism is (4):

(4) $\text{politmode}\{3\} + \text{politmode}\{2\} \text{econmode}\{2,3\} = \text{libdecap}\{1\}$.

Table 4.4. Unobserved cases in the assumed scripts of the alternative preliminary pattern for successful rapid transition to liberal democratic capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{0}politmode{2}econmode{2}	<i>Contrevolgrad</i>	Slovakia (222), Albania, Armenia, Azerbaijan and Georgia (021), Tajikistan (020)
2	orientation{0}politmode{3}econmode{0}	<i>Contpactmin</i>	Belarus (010), Turkmenistan and Uzbekistan (000), Tajikistan (020)
3	orientation{0}politmode{3}econmode{1}	<i>Contpactpart</i>	Kazakhstan and Kyrgyzstan (001), Albania, Armenia, Azerbaijan and Georgia (021)
4	orientation{0}politmode{3}econmode{2}	<i>Contpactgrad</i>	Hungary (232), Slovenia (233)
5	orientation{0}politmode{3}econmode{3}	<i>Contpactshock</i>	Lithuania (133), Poland (233)
6	orientation{1}politmode{2}econmode{2}	<i>Restrevolgrad</i>	Estonia and Latvia (123), Slovakia (222)
7	orientation{1}politmode{3}econmode{0}	<i>Restpactmin</i>	Lithuania (133), Serbia (100)
8	orientation{1}politmode{3}econmode{1}	<i>Restpactpart</i>	Lithuania (133)
9	orientation{1}politmode{3}econmode{2}	<i>Restpactgrad</i>	Lithuania (133)
10	orientation{2}politmode{3}econmode{0}	<i>Imipactmin</i>	Hungary (232), Poland (233)
11	orientation{2}politmode{3}econmode{1}	<i>Imipactpart</i>	Hungary (232), Poland (233)
12	orientation{3}politmode{2}econmode{2}	<i>Inovrevolgrad</i>	China and Vietnam (302), Slovenia (332)
13	orientation{3}politmode{3}econmode{0}	<i>Inovpactmin</i>	Slovenia (332)
14	orientation{3}politmode{3}econmode{1}	<i>Inovpactpart</i>	Slovenia (332)
15	orientation{3}politmode{3}econmode{3}	<i>Inovpactshock</i>	Slovenia (332)

In the formulas (3) and (4), the first components are identical, comprising the same cases. This is Hungary, Lithuania, Poland, Slovenia.⁷ About these cases both formulas say that creation of REC and liberal democracy in the first decade of post-communist transformation is explained by the political exit from communism in “refolution” mode (the conclusion of the pact between old ex-communist and the new anti-communist elite). Also, second components have identical coverages (including the Czech Republic, East Germany, Estonia, Latvia, Slovakia). However, if formula (3) says that these countries’ rapid transformation into liberal

⁷ For reasons of space economy, I do not provide lists of the cases covered by components of formulae, because at this stage of analysis we have to deal only with primary and intermediate findings.

democratic capitalist societies is conditional on the anti-communist revolution jointly with restitutive or mimetic orientation of transformation, the formula (4) posits as a necessary complement to anti-communist revolution gradual incremental or “shock therapy” style economic reforms. Therefore, the lists of unobserved cases in the assumed scripts of the formulas (3) and (4) are different, although there is much overlapping (compare table 4.3 and table 4.4).

The conduct of QCA includes the search of formulas both for negative and positive outcomes. Searching for the most elegant pattern covering the observed failures of rapid transition to liberal democratic capitalism, TOSMANA also suggests the choice between two formulas:

(5) orientation {0} + politmode {0,1} = libdecap {0}

(6) politmode {0,1} + econmode {0,1} = libdecap {0}

Formula (5) assumes failures in 20 unobserved cases (see table 4.5).

Formula (6) makes 22 contrary-to-fact assumptions (see table 4.6).

The difference between (5) and (6) minimal formulas for the negative outcomes is akin to that between (3) and (4) formulas for positive outcomes. For positive outcomes, the program seems to have “offered” a choice between a more culturalist approach, emphasizing the role of orientations, and a more institutionalist one, claiming the sufficiency of the transformation modes of the economic and political institutions for explanation of differences in the outcomes. Similarly, formula (5) explains part of the cases in the culturalist spirit (by orientations), while formula (6) involves only the variables describing the modes of transformation.

However, comparing the coverage of the addition terms in the minimal formulas for positive and negative outcomes, one may note an important difference. There is no intersection in the coverages of the terms in the formulas for positive outcomes: each positive outcome is explained by only one configuration of conditions. Meanwhile, the coverages of the components in the minimal formulas for negative cases overlap.

Regarding formula (5), the failure of rapid transformation in the cases of Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan can be explained by continuational orientation or by mode of political transformation (conservation of authoritarian regimes or democratization from above). In the formula (6), the intersection between its components politmode {0,1} and econmode {0,1} includes Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine Kazakhstan, Kyrgyzstan, Serbia, Turkmenistan and Uzbekistan. This would mean that the failure of post-communist transformation in these countries had more than one sufficient condition, i.e. it was overdetermined.

Table 4.5. Unobserved cases in the assumed scripts of the preliminary pattern for the failures of the rapid transition to liberal democratic capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{0}politmode{0}econmode{2}	<i>Contautorgrad</i>	Turkmenistan and Uzbekistan (000), Kazakhstan and Kyrgyzstan (001), China and Vietnam (302)
2	orientation{0}politmode{0}econmode{3}	<i>Contautorshock</i>	Uzbekistan (000), Kazakhstan and Kyrgyzstan (001)
3	orientation{0}politmode{1}econmode{2}	<i>Contrefgrad</i>	Belarus (010)
4	orientation{0}politmode{1}econmode{3}	<i>Contrefshock</i>	Belarus (010), Russia (213)
5	orientation{0}politmode{2}econmode{2}	<i>Contrevolgrad</i>	Albania, Armenia, Azerbaijan, Georgia (021), Tajikistan (020), Slovakia (222)
6	orientation{0}politmode{2}econmode{3}	<i>Contrevolshock</i>	Albania, Armenia, Azerbaijan, Georgia (021), Tajikistan (020), Czech Republic, East Germany (223), Estonia, Latvia (123)
7	orientation{0}politmode{3}econmode{0}	<i>Contpactmin</i>	Turkmenistan and Uzbekistan (000), Tajikistan (020), Belarus (010).
8	orientation{0}politmode{3}econmode{1}	<i>Contpactpart</i>	Kazakhstan, Kyrgyzstan (001), Albania, Armenia, Azerbaijan, Georgia (021)
9	orientation{0}politmode{3}econmode{2}	<i>Contpactgrad</i>	Hungary (232), Slovenia (332)
10	orientation{0}politmode{3}econmode{3}	<i>Contpactshock</i>	Lithuania (133), Poland (233)
11	orientation{1}politmode{0}econmode{1}	<i>Restautorpart</i>	Serbia (100)
12	orientation{1}politmode{0}econmode{2}	<i>Restautorgrad</i>	Serbia (100)
13	orientation{1}politmode{0}econmode{3}	<i>Restautorshock</i>	Serbia (100), Lithuania (133), Latvia and Estonia (123)
14	orientation{2}politmode{0}econmode{0}	<i>Imiautormin</i>	Turkmenistan, Uzbekistan (000), Serbia (100)
15	orientation{2}politmode{0}econmode{1}	<i>Imiautorpart</i>	Croatia (211)
16	orientation{2}politmode{0}econmode{2}	<i>Imiautorgrad</i>	Slovakia (222)
17	orientation{2}politmode{0}econmode{3}	<i>Imiautorshock</i>	Czech Republic and East Germany (223), Poland (233), Russia (213)
18	orientation{3}politmode{0}econmode{0}	<i>Inovautormin</i>	China and Vietnam (302)
19	orientation{3}politmode{0}econmode{1}	<i>Inovautorpart</i>	China and Vietnam (302)
20	orientation{3}politmode{0}econmode{3}	<i>Inovautorshock</i>	China and Vietnam (302)

Table 4.6. Unobserved cases in the assumed scripts of the alternative preliminary pattern for the failures of the rapid transition to liberal democratic capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{0}politmode{0}econmode{2}	<i>Contautorgrad</i>	Turkmenistan and Uzbekistan (000), Kazakhstan and Kyrgyzstan (001), China and Vietnam (302)
2	orientation{0}politmode{0}econmode{3}	<i>Contautorshock</i>	Uzbekistan (000), Kazakhstan and Kyrgyzstan (001)
3	orientation{0}politmode{3}econmode{0}	<i>Contpactmin</i>	Turkmenistan and Uzbekistan (000), Tajikistan (020), Belarus (010).
4	orientation{1}politmode{0}econmode{1}	<i>Restautorpart</i>	Serbia (100)
5	orientation{1}politmode{0}econmode{2}	<i>Restautorgrad</i>	Serbia (100)
6	orientation{1}politmode{0}econmode{3}	<i>Restautorshock</i>	Serbia (100), Lithuania (133), Latvia and Estonia (123)
7	orientation{1}politmode{1}econmode{0}	<i>Restrefmin</i>	Serbia (100)
8	orientation{1}politmode{2}econmode{0}	<i>Restrevolmin</i>	Serbia (100), Estonia, Latvia (123)
9	orientation{1}politmode{3}econmode{0}	<i>Restpactmin</i>	Lithuania (133)
10	orientation{2}politmode{0}econmode{0}	<i>Imiautormin</i>	Turkmenistan, Uzbekistan (000), Serbia (100)
11	orientation{2}politmode{0}econmode{1}	<i>Imiautorpart</i>	Croatia (211)
12	orientation{2}politmode{0}econmode{2}	<i>Imiautorgrad</i>	Slovakia (222)
13	orientation{2}politmode{0}econmode{3}	<i>Imiautorshock</i>	Czech Republic and East Germany (223), Poland (233), Russia (213)
14	orientation{2}politmode{1}econmode{0}	<i>Imirefmin</i>	Croatia (211), Belarus (010), Russia (213)
15	orientation{2}politmode{2}econmode{0}	<i>Imirevolmin</i>	Slovakia (222)
16	orientation{2}politmode{3}econmode{0}	<i>Imipactmin</i>	Hungary (232), Poland (233)
17	orientation{3}politmode{0}econmode{0}	<i>Inovautormin</i>	China and Vietnam (302)
18	orientation{3}politmode{0}econmode{1}	<i>Inovautorpart</i>	China and Vietnam (302)
19	orientation{3}politmode{0}econmode{3}	<i>Inovautorshock</i>	China and Vietnam (302)
20	orientation{3}politmode{1}econmode{0}	<i>Inovrefmin</i>	Belarus (010)
21	orientation{3}politmode{2}econmode{0}	<i>Inovrevolmin</i>	
22	orientation{3}politmode{3}econmode{0}	<i>Inovpactmin</i>	Slovenia (332)

So, at first glance it may appear that we have two empirically equivalent, but theoretically different explanations of the successes and failures of post-communist transformation. It may seem that only methodological arguments can provide reasons for a choice between them. One such argument could be that in deriving formula (6), the program assumes more scripts (22) about unobserved cases than are needed to derive formula (5) (20 counterfactual assumptions).

However, this impression is misleading because the program made contradictory assumptions in its search for minimal patterns. The assumptions of formulas (3) and (5) are contradictory about *Contractmin*, *Contractpart*, *Contractgrad*, *Restrevolmin* cases. Assumptions for (4) and (6) clash about the *Contractmin*, *Restpactmin*, *Imipactmin*, *Inovpactmin* cases. Maybe we can avoid contradictions between these assumptions by explaining the positive cases with (3), negative cases – with formula (6) or positive cases – using (4) and negative cases using formula (5)? Unfortunately, the number of contradictions does not decrease: the assumed scripts of formulas (3) and (6) about *Contractmin*, *Restrevolmin* and *Inovpactmin* are logically incompatible; as are the assumptions of formulas (4) and (5) about *Contrevolgrad*, *Contractmin*, *Contractpart*, *Contractgrad* and *Contractshock*.

The number of contradictions is least between the sets of assumption of the (3) and (6) formulas (although the number of scripts assumed by formula (6) is largest at (22)). However, the formal criterion of the number of contradictions between positive and negative outcomes could be accepted as a criterion for the selection of an optimal Boolean formula, only if we were interested in the sole question of the conditions for success of the rapid transformation of communism into liberal democratic capitalism.

In this case, one should choose the pair of the minimal Boolean formula with the least number of contradictory assumptions. Next, we should go on to consider these contradictions and judge which of the incompatible assumptions are more plausible. We should add to the initial data (including only empirically observed cases) the fictitious cases that record our judgment and limit the freedom of the computer program to “experiment” with scripts. If after the repeated search for minimal formula we found no more contradictions between the assumptions about the positive and negative outcomes, then we would be entitled to consider these minimal formulas as optimal generalizations or patterns.

However, this book raises a far more ambitious goal – to formulate a *strong* theory of post-communist transformation which is not limited to the answering of only one question about empirically observed cases. Therefore, we cannot stop after adding to the data set unobserved cases and scripts about them that were needed to resolve contradictions between scripts assumed in the search for a pattern in the rapid success in transition to liberal democratic capitalism. Instead, we are searching for the set of interrelated patterns involving at least five

explanatory problems. So we need to also evaluate the plausibility of the remaining counterfactual assumptions. These are assumptions about positive outcomes not contradicted by assumptions about negative outcomes. The most likely assumptions should be recorded in the data set. Nevertheless, this assessment is best to start with the most contentious cases. These are cases about which assumed scripts clash. These are *Contpactmin*, *Contpactpart*, *Contpactgrad*, *Contpactshock*, *Restrevolmin*, *Restpactmin*, *Imipactmin*, *Inovpactmin* and *Contrevolgrad* cases.

As stated before, the most reliable guide to answer the question which outcome of post-communist transformation is most likely for unobserved cases, is to compare these cases with most similar observed cases. So there can barely be doubts about the outcome of post-communist transformation in the *Contpactpart* (orientation {0} politmode {3} econmode {1}) and in the *Contpactmin* (orientation {0} politmode {3} econmode {0}), which is very similar to *Contpactpart*. How can some ten years lead to liberal democratic capitalism, if partial reforms are implemented, and the majority of the population considers the change of economic and political system as illegitimate?

The most likely outcome of economic reforms in *Contpactpart* is political oligarchic capitalism, as happened in Kazakhstan, Kyrgyzstan, as well as in Albania, Armenia, Azerbaijan and Georgia. Of course, in Kazakhstan and Kyrgyzstan there was no anti-communist opposition as negotiation partners for the ruling communist elite after these countries suddenly became independent. In Armenia, Azerbaijan and Georgia, there was such an opposition, and it took power for some time after communists were removed by revolutions. However, anti-communist nationalists were not able to implement consistent economic reforms, and they involved their countries in civil or inter-state wars. Where these wars were lost (Georgia, Azerbaijan) ex-communists returned to power. In Georgia, they were removed again during the November 2003 “rose revolution”.

In the *Contapactpart* case, the reader is invited to imagine less conflict-ridden relations between ex-communist and anti-communist power elites, which means that constitutional “rules of the game” were respected in the struggle for power. This means that unlike *Contpactpart* there is liberal democracy in these countries (although an unconsolidated one). In the second decade of post-communist transformation Albania became *Contpactpart*, when the falsification of elections ceased or the protest riots against such (real or alleged) electoral fraud stopped being organized by the losers. Even more, there were even coalitional governments with the participation of both ex-communist and anti-communist parties. Hence, (orientation {0} politmode {3} econmode {1}) = libdecap {0}.

Similarly, we can argue for the selection of the assumption (orientation {0} politmode {3} econmode {0}) = libdecap {0} in the *Contpactmin* case. However, state capitalism is more likely in the *Contpactmin*, while in *Contpactpart* one

should expect POC. Belarus could be just like *Contrapactmin*, if the Presidential election in 1994 had not been won by populist Aleksandr Lukashenko, but by his most serious rival, a candidate of the old communist nomenklatura, Vyacheslav Kebich. One could imagine that he would have been able to find common ground with the main anti-communist opposition force – the Belarusian Popular Front. One could also imagine the pact between this political force and the old communist nomenklatura, involving the postponement of the deeper market-oriented reforms in exchange for Belarus “Belarusification”. Then Belarus would have met its second decade of post-communist transformation as *Contrapactmin* – state capitalist and a democratic Belarusian-speaking country, supporting its national identity with claims to the heritage of the Grand Duchy of Lithuania.

Meanwhile in the *Contrapactshock* (orientation {0} politmode {3} econmode {3}) and *Contrapactgrad* (orientation {0} politmode {3} econmode {2}) the rapid success of liberal democratic capitalism is more likely than failure. Under the pact between the old (ex-communist) and new (anti-communist) elites (ensuring early entrenchment of liberal democracy), the mass rejection of change or a widespread nostalgia for the communist era would have no impact on the course of economic transformation: after the punishment of reformers by conservative voters, the former opposition, now in power, would implement the same policy of market reforms.

The empirical basis for such a statement is provided by the course of the post-communist transformation in the empirical cases that are closest to *Contrapactshock*: Poland (orientation {2} politmode {3} econmode {3}), and particularly in Lithuania (orientation {1} politmode {3} econmode {3}). The restoration of the allegedly “golden age” of the Antanas Smetona’s Lithuania before 1940 was the dominant orientation at the beginning of Lithuania’s exit from communism. As for the second orientation in their strength order, this was probably a continuational but not mimetic one. The ideal of a large part of population was the Soviet style socialism, coloured by national colours. That is what led to an overwhelming victory of the ex-communist Lithuanian Labour Democratic Party in parliamentary elections in October 1992. However, the hopes for the restoration of the Soviet welfare were dashed. Ex-communists continued the “shock therapy”, paying the price of a crushing defeat in the next election in 1996. After orderly power transfer, their political opponents, the Conservatives, successfully completed market reforms.

The course of events was very similar in Poland. However, in Lithuania the pact between ex-communists and anti-communists was initially very fragile. In the 1990s, Lithuania on at least two occasions was at the coloured revolution doorstep. Only during the second post-communist decade was the pact cemented. In 2003–2004, the Lithuanian ex-communists and their main political opponents joined forces to remove Rolandas Paksas from the presidency via impeachment

(see chapter 7). Thanks to tacit Conservative support, in 2006–2008 Lithuania was governed by the ex-communist Social Democrat minority government. Meanwhile, in Poland the pact between ex-communists and anti-communist was denounced in 2006 after the New Right coalition led by the Kaczyński brothers had won parliamentary and Presidential elections in 2005 (see Markowski 2006). The winners proclaimed as their goal the building of the “Fourth Republic”, which would replace the “Third Republic” based on the compromise between anti-communists and ex-communists.

If nostalgia for the Soviet Union had been even stronger than it was in Lithuania in 1992, and ex-communists had won even more votes, would it make any difference to the course of the economic and political transformation course? The answer is no, and therefore we can assume a (orientation {0} politmode {3} econmode {3}) = libdecap {1}. *Contpactshock* depicted by this assumption is just a little more strongly sovietized Lithuania. It would have become *Contpactshock*, if in 1939 Lithuania had joined the war on Hitler’s side, and after World War II had possibly become a Baltic Mongolia.

More doubts may arise about the assumption (orientation {0} politmode {3} econmode {2}) = libdecap {1} which describes *Contpactgrad*. On the one hand, one can question whether, under market reforms lacking legitimacy, ten years may be sufficient for the transformation of communism into liberal democratic capitalism. On the other hand, it is plausible to reason that coherent and comprehensive (non-partial and impartial) gradual incremental reforms could have helped to diminish “uncreative destruction”, which took place in Lithuania and other Baltic countries while implementing “shock therapy”. Therefore, the economic system emerging from the ruins of communism would possibly have had less semi-peripheric and more semi-core capitalism features, if compared with the actual Baltic capitalism (see 3.2 and 6.2).

However, in the *Contrevolgrad* (orientation {0} politmode {2} econmode {2}) the most likely first decade outcome is different. But first of all, one must confront the question of how an anti-communist revolution is possible in a country where continuational orientation is dominant? Is the script involving both continuational orientation and anti-(ex)communist revolution coherent? The answer is that such a combination has little chance of happening (this may be the reason why it is not observable), but by no means is it impossible. A communist or ex-communist victory in the first free election conditional on the dominance of the continuational orientation does not provide insurance against the “coloured revolutions” that bring to power an anti-(ex)communist government. An anti-communist opposition may not recognize the election results unfavourable to it. In a country where there are considerable differences between value attitudes and

ideological orientations of the country's political centre (the capital) and peripheral populations, and given favourable international conditions, such a situation is especially likely to occur.

Actual colour revolutions took place in the second decade of post-communist transformation. However, it is not beyond the powers of imagination to conceive them as happening at the very beginning of post-communist transformation. Indeed, the coloured revolution before the “coloured revolutions” took place in Albania (orientation {0} politmode {2} econmode {1}), where in 1992 anti-communist forces after taking power of city streets compelled the ex-communists, a year after winning election recognized by observers as free and fair, to hold the new election. This time the anti-communists won. After the launch of market reforms, a “financial pyramid” structure of economics flourished in the country for a short time. Albania's road to liberal democratic capitalism was interrupted in 1996–1997 by economic collapse and civil war, which was stopped only by foreign (in particular Italian) intervention.

This may also be the lesson of the road from communism of Armenia, Azerbaijan, Georgia and Tajikistan (orientation {0} politmode {2} econmode {1}). Their situation has been complicated by wars. However, outbreak of these wars was no accident. In the case when anti-communists try to remove communists or ex-communists from power by revolutionary means, the latter can strike back, as happened in Tajikistan. The events in Georgia were not so different, where in 1991 democratically elected President Zviad Gamsachurdia was toppled by rebels.

It is true that in Albania and Transcaucasian republics it wasn't gradual or incremental (as in *Contrevolgrad*), but partial economic market reforms that were implemented. However, it seems that if capitalism lacks legitimacy and if there is no consensus among elites about the inadmissibility to resort to violence or to appeal to the streets in the struggle for power, then neither gradual reforms (*Contrevolgrad*) nor shock therapy (*Contrevolshock*) can succeed. The most likely outcome is political oligarchic capitalism in the economy and illiberal democracy instead of liberal democratic capitalism, which during the first decade of post-communist transformation was seen in Slovakia (orientation {2} politmode {2} econmode {2}). This is another case, comparable with *Contrevolgrad*. However, this is the place to recall that despite the clear domination of the mimetic orientation, this was the country that succeeded only by a small margin to achieve rapid transformation. So we assume about *Contrevolgrad* (orientation {0} politmode {2} econmode {2}) = libdecap {0}.

It is necessary to point out that the lack of legitimacy of market and democratic reforms is an obstacle to the *rapid* transformation of the communist system into liberal democratic capitalism rather than to its emergence as such. Over the longer term, broad sections of the population may change their mentality.

Paternalistic expectations of the care by state can be superseded by the economic market culture. However, for the ten-year term, the most likely outcome is political oligarchic or state capitalism (depending on whether the partial or minimal market reforms took place).

The remaining four cases involved in the contradictory assumptions made by TOSMANA are *Restrevolmin* (orientation {1} politmode {2} econmode {0}), *Restpactmin* (orientation {1} politmode {3} econmode {0}), *Imipactmin* (orientation {2} politmode {3} econmode {0}), *Inovpactmin* (orientation {3} politmode {3} econmode {0}).

All these cases share minimal economic reforms as the economic mode of the exit from communism. It may be that a country that left communism with such reforms may finally arrive at REC (e.g. after some 30 or more years). This may be the outcome of the slow rise from below of the private sector, in conjunction with the slow privatization of state-owned enterprises in the second decade or even later. However, REC as an outcome is not conceivable for the rather short ten years term. The most likely economic outcome in such cases is state capitalism. Therefore, for all Boolean products which contain econmode {0} as a factor, the outcome libdecap {0} is assumed. It is beyond doubt that for all cases involving the pact between the ex-communist and anti-communist forces one can predict an early liberal democracy (*Restpactmin*, *Imipactmin*, *Inovpactmin*).

There is less clarity about the outcomes of the political transformation in the *Restrevolmin*. The three empirically observed cases most similar to *Restrevolmin* are Serbia, with which it has minimal market reforms and restitutorial orientation in common, Latvia and Estonia, which share with *Restrevolmin* restitutorial orientation and revolutionary disestablishment of the communist power elite. Serbia welcomed the second post-communist decade with a coloured revolution, which began its democratization. Latvia and Estonia are considered by some observers as ethnocratic liberal democracies. This alleged democracy deficit in Estonia and Latvia stands in the obvious connection with the restitutive orientation of transformation, which legitimated exclusive citizenship rights legislation.

In addition, it is possible to imagine that the restitutorial orientation posits as a “golden age” not a pre-communist system that was capitalist or liberal democratic, but feudal or clan patriarchal. For example, the domination of the restitutive orientation in Central Asian countries would mean that broad masses or elite were eager to restore social order that existed in the Bukhara and Chiva Emirates in 1917 or even earlier (in early Islamic times). It is clear that in such a society the democratization by reforms from the top, the gradual or shock therapy-style market reforms would all fail.

However, we must take into account the fact that all those countries where communism has played a “turbo-modernizing” role (see 1.1), continuational ori-

entation was dominant in the early period of post-communist transformation. In all those countries with a restorational orientation the “golden age” to be restituted was the interwar time (Serbia is the only partial exception of this, because interwar Yugoslavia, by the end of the 1930s, had been a de facto Greater Serbia). It is known that the interwar period in Central European and Baltic countries started with the establishment of liberal democracies and ended with their collapse (the partial exception is the Czechoslovakia). Thus, restitutorial orientation is neutral with respect to the outcome of the transformation of the communist political system.

There is another perplexity about all four unobserved cases containing econ-mode {0} in their descriptions: what could be the cause of minimal market reforms, given the dominance of a restitutive, mimetic or even innovative orientation? Are not the descriptions of such cases logically inconsistent?

I would like to repeat the point that was made discussing *Contrevolgrad*. Even if the occurrence of such condition combination has a small probability, this does not mean impossibility. Minimum market reforms that would be insufficient for *Restrevolmin*, *Restpactmin*, *Imipactmin*, *Inovpactmin* to build REC during the first post-communist decade, may take place because of exceptionally unfavourable international conditions or problems associated with nation-building. If in such countries there are breakaway territories like Abkhazia and Transnistria, and a neighbouring undemocratic state intervened in a civil war, then there would be no conditions for coherent and broad market reforms. Economic transformation would boil down to the transition from the state socialist planned administrative to the state capitalist economy. In the case of *Restrevolmin* one can also predict the failure to establish liberal democracy during the first post-communist decade.

After adding to the data set 9 fictive cases (*Contpactmin*, *Contpactpart*, *Contpactgrad*, *Contpactshock*, *Contrevolgrad*, *Restrevolmin*, *Restpactmin*, *Imipactmin*, *Inovpactmin*) the total number of cases is increased to 38, and the number of the observed and quasi-observed ways of post-communist transformation increases to 26.⁸ Then the remaining 7 assumptions from a total of 15 assumptions of formula (3) and the remaining 7 from a total of 15 assumptions of formula (4) should be considered. The task is facilitated by the almost complete overlapping of these assumption sets. The only difference is that formula (3) assumes rapid successful post-communist transformation in the *Restrevolpart* which is not required by formula (4). In its turn, this formula assumes success for *Inovrevolgrad*

⁸ See the data file *Postcmtr101.csv*, where 29 really observed cases are supplemented by 9 fictitious, accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr101.csv> 23.08.2011.

ignored by formula (3). So, we need to verify whether TOSMANA's proposal can be accepted to assume rapid emergence of liberal democratic capitalism in the following hypothetical eight countries:

- (1) orientation {1} politmode {2} econmode {1}; *Restrevolpart*. Estonia and Latvia (123).
- (2) orientation {1} politmode {2} econmode {2}; *Restrevolgrad*. Estonia and Latvia (123).
- (3) orientation {1} politmode {3} econmode {1}; *Restpactpart*. Lithuania (133).
- (4) orientation {1} politmode {3} econmode {2}; *Restpactgrad*. Lithuania (133).
- (5) orientation {2} politmode {3} econmode {1}; *Imipactpart*. Hungary (232), Poland (233).
- (6) orientation {3} politmode {3} econmode {1}; *Inovpactpart*. Slovenia (332).
- (7) orientation {3} politmode {3} econmode {3}; *Inovpactshock*. Slovenia (332).
- (8) orientation {3} politmode {2} econmode {2}; *Inovrevolgrad*. China and Vietnam (302), Slovenia (332).

I would wager that only the proposals about *Restrevolgrad*, *Restpacgrad*, *Inovpactshock*, and *Inovrevolgrad* could be accepted. For the *Restrevolgrad* case we have to answer the question of what would have been the fate of REC and liberal democracy in Estonia, if gradual (incremental) reforms had been carried out instead of “shock therapy”? It seems probable that in such a case the economic achievements of our neighbours would not be less, and the quality of democracy would be higher. The “shock therapy” was implemented in these countries not only because of economic, but also because of political motives. The big enterprises administrated directly from Moscow were hit the worst. The labour force at these enterprises were predominantly Russian speaking immigrants. They provided mass support to “interfront” movements which opposed the restoration of the Baltic States. The expected side-effect of shock therapy was the ruin of these enterprises with mass migration of their unemployed workforce back to Russia and other former Soviet republics. This expectation did not materialize. If there had been gradual reforms, it is probable that the Russian speaking immigrants would have suffered less and the greater part of them would have become loyal citizens of the restored states.

A similar reasoning may hold about the *Restpactgrad* which is counterfactual Lithuania where gradual incremental economic reform would have been carried out instead of “shock therapy”, all other things remaining the same. It is likely that in this case there would have been less damage from “uncreative destruction”, and the political-economic system would have emerged more similar to the Slovenian than to the Estonian model of REC (see also chapter 6). Equally important is that the quality of Lithuanian liberal democracy would have been much better, its political system would have been more resilient to the invasion of the ever new populist parties, because a lesser part of Lithuanian voters would have suffered from social-economic exclusion and deprivation.

One may also be optimistic about the prospects for the success of rapid transition in the counterfactual *Inovpactshock* case, which is counterfactual Slovenia: shock therapy was implemented instead of gradual reforms, but an innovative approach would have been preserved by adapting the radical reforms in a creative way to local conditions. This way for Slovenia to become an Adriatic Lithuania is discussed in more detail in 6.4. Another counterfactual Slovenia is *Inovrevolgrad*: after the Czech type “velvet revolution” and lustration removing the communist elite the market reforms are implemented in the gradual incremental way, using creative institutional innovations of local origin.

However, there is another, perhaps even more interesting *Inovrevolgrad* interpretation. Namely, it can be interpreted as one of the alternatives to the actual road of China out of communism. As a matter of fact, China exited after the authoritarian government relaunched in 1992–1993 market reforms which had been suspended after the crackdown on the anti-communist opposition in Tiananmen Square in 1989. But what if the anti-communist opposition had won in 1989?

One possibility after a victorious anti-communist revolution are partial market reforms (orientation {3} politmode {2} econmode {1}), which would result in the political oligarchic capitalism in the liberal democratic China around the year 2000. Another possibility – shock therapy (orientation {3} politmode {2} econmode {3}) instead of the gradual incremental reforms implemented by the authoritarian regime. However, a democratically elected government after the anti-communist revolution could continue the reform strategy of the communist precursor, doing the same things which the actual Chinese government did. Then China would have become *Inovrevolgrad* (orientation {3} politmode {2} econmode {2}).

However, we cannot accept the assumption suggested by TOSMANA that rapid post-communist transformation would be successful in *Restrevolpart*, *Restpactpart*, *Imipactpart*, *Inovpactpart*. Of course, we can be sure about the security of liberal democracy in *Restpactpart*, *Imipactpart* and *Inovpactpart*, because it would be stabilized by the cartel of the anti-communist and ex-communist parties, jointly acting against populist political entrepreneurs exploiting the dissatisfaction of the masses, with the results of partial economic reform. The most likely outcome of such inequitable reforms is political oligarchic capitalism in all four cases.

The *Restpactpart* case is perhaps most easily imaginable for the Lithuanian reader, because in this country there is no shortage of critical observers who consider Lithuania as a case of political oligarchic capitalism. They believe that the market reforms in the 1990s were partial. In this book the “politically correct” classification of Lithuania as an REC country is accepted. At the same time, one should recognize that the difference between the real Lithuania and the counterfactual oligarchic *Restpactpart* is not large. From all imaginable alternatives of

the factual road of Lithuania out of communism *Restpactpart* is the most realistic “worse” alternative, while the most realistic “better” alternative is *Restpactgrad*, which has already been discussed and will be considered again in chapter 6.

It is also relatively easy to imagine a *Imipactpart* case. This is Poland or Hungary where, for some reason, partial market reforms were implemented instead of “shock therapy” (Poland) or gradual incremental reforms (Hungary). It is much harder to imagine Slovenia implementing in the early 1990s not gradual, but partial reforms, and becoming a country of the political oligarchic capitalism *Inovpactpart*.

Partial reforms in Estonia and especially Latvia, thereby making them *Restrevolpart*, are easily imagined. Again, many believe that precisely such reforms, at least in Latvia, were implemented in reality. However, about such alternative in Estonia and Latvia we have another problem. Would not liberal democracy become in these alternate oligarchic Latvia and Estonia a mere facade? In fact, because of the allegedly ethnocratic features of their political regimes these states received from the international democracy monitoring organisations lower marks than Lithuania and Central European countries. Probably these grades would be even lower if, due to partial economic reforms, political oligarchic capitalism would have been established. Therefore we assign to the variable ‘liberal democracy’ (libdem) the value 0 in case of *Restrevolpart* (but not for the real Latvia and Estonia). Adding to the data file the unobserved cases just described, we increase the overall number of the ways of post-communist transformation to 34.⁹

In assessing the TOSMANA assumptions about the negative cases, 15 assumptions of formula (5) from a total of 20 assumptions, and 17 out of the total 22 assumptions of formula (6) must be discussed. Others have been explored resolving contradictions between assumptions about positive and negative outcomes. It will be recalled that to resolve those contradictions nine unobserved or imaginary cases were added to really observable cases in the data set *Postcmtr101.csv*. Now, because of 12 repetitions the total number of assumptions to be assessed is about 20 unobserved cases. After their discussion, the total number of the pathways of post-communist transformation will increase to 54 (that of case instances – up to 66). The logical space for free TOSMANA “experiments” with scripts will be reduced to 10 configurations.

Now, we need to verify the suggestions of TOSMANA indicating that liberal democratic capitalism would not emerge during the first decade of post-communist transformation in these hypothetical countries:

⁹ See data file *Postcmtr102.csv*: <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr102.csv> 23.08.2011.

- (1) orientation {0} politmode {0} econmode {2}; *Contautorgrad*. Turkmenistan and Uzbekistan (000); Kazakhstan and Kyrgyzstan (001); China and Vietnam (302).
- (2) orientation {0} politmode {0} econmode {3}; *Contautorshock*. Turkmenistan and Uzbekistan (000), Kazakhstan and Kyrgyzstan (001).
- (3) orientation {0} politmode {1} econmode {2}; *Contrefgrad*. Belarus (010).
- (4) orientation {0} politmode {1} econmode {3}; *Contrefshock*. Belarus (010), Russia (213).
- (5) orientation {0} politmode {2} econmode {3}; *Contrevolshock*. Albania, Armenia, Azerbaijan, Georgia (021); Tajikistan (020); Czech Republic, East Germany (223), Estonia, Latvia (123).
- (6) orientation {1} politmode {0} econmode {1}; *Restautorpart*. Serbia (100).
- (7) orientation {1} politmode {0} econmode {2}; *Restautorgrad*. Serbia (100).
- (8) orientation {1} politmode {0} econmode {3}; *Restautorshock*. Serbia (100), Lithuania (133), Latvia and Estonia (123).
- (9) orientation {2} politmode {0} econmode {0}; *Imiautormin*. Turkmenistan, Uzbekistan (000), Serbia (100).
- (10) orientation {2} politmode {0} econmode {1}; *Imiautorpart*. Croatia (211).
- (11) orientation {2} politmode {0} econmode {2}; *Imiautorgrad*. Slovakia (222).
- (12) orientation {2} politmode {0} econmode {3}; *Imiautorshock*. Czech Republic and East Germany (223), Poland (233), Russia (213).
- (13) orientation {3} politmode {0} econmode {0}; *Inovautormin*. China and Vietnam (302).
- (14) orientation {3} politmode {0} econmode {1}; *Inovautorpart*. China and Vietnam (302).
- (15) orientation {3} politmode {0} econmode {3}; *Inovautorshock*. China and Vietnam (302).
- (16) orientation {1} politmode {1} econmode {0}; *Restrefmin*. Serbia (100).
- (17) orientation {2} politmode {1} econmode {0}; *Imirefmin*. Croatia (211), Belarus (010), Russia (213).
- (18) orientation {2} politmode {2} econmode {0}; *Imirevolmin*. Slovakia (222).
- (19) orientation {3} politmode {1} econmode {0}; *Inovrefmin*. Belarus (010).
- (20) orientation {3} politmode {2} econmode {0}; *Inovrevolmin*.

There are least difficulties with the assumptions that include the Boolean factor politmode {0}. Regarding these cases one can safely predict that by the end of the first decade of post-communist transformation there will be no liberal democracy. Therefore, there will also be no liberal democratic capitalism, because this requires not only the transformation of the communist economic system into REC, but also the replacement of communist authoritarianism by liberal democracy. However, democratization, once started, is not necessarily successful (as the Russian and Belarussian cases display). On the other hand, achievements in democratization can surpass those in the transformation of the economic system (in the cases of Ukraine and Mongolia), and REC can arise without democratization (China and Vietnam).

So, we accept the assumption that in the *Contautorgrad*, *Contautorshock*, *Restautortpart*, *Restautortgrad*, *Restautortshock*, *Imitautortmin*, *Imiautortpart*, *Imiautortgrad*, *Imiautortshock*, *Inovautortmin*, *Inovautortpart* and *Inovautortshock* cases liberal democratic capitalism would not emerge after the first decade of post-communist transformation. This also means that the variable “liberal democracy” (libdem) has a value 0 for these cases.

For the *Contautortgrad* case (orientation {0} politmode {0} econmode {2}) we have to answer the following question: can an authoritarian regime succeed in creating REC during ten years of gradual market reforms despite the lack of support for such reforms by the vast majority of the population? China and Vietnam owe their success of the rapid progress towards REC to the innovational orientation of the broad part of the population that have used the opportunities opened by the reform for private enterprise. Most innovative solutions of how to dissolve communism without “uncreative destruction” emerged as improvisations from below. The main merit of the “centre” was only to allow and sometimes to promote the diffusion of such innovations.

The variables (orientation {0} politmode {0} econmode {2}) describe the combination of conditions where the Communist Party, after launching policies similar to that carried out by Chinese and Vietnamese Communists, face the passivity of the masses that have been “spoiled” by communism. In this situation, it is difficult to imagine rapid success in the building of REC. Therefore, the assumption (orientation {0} politmode {0} econmode {2}) = ratentcap {0} is accepted. Again, the provision is necessary that such configuration of conditions is unfavourable for fast transition to REC, but does not prevent its emergence in the longer run.

For the same reason we should believe that the rapid establishment of REC would fail also in the *Contautortshock* case where an authoritarian regime tries to get out of the administrative planned economy in the “shock therapy” mode. But if in the *Contautortgrad* case (orientation {0} politmode {0} econmode {2}) the most likely outcome after ten years is state capitalism, in the *Contautortshock* case political oligarchic capitalism is more likely. In this hypothetical country, former members of the Communist Party Politburo would become top oligarchic capitalists. Actual countries most similar to *Contautortshock* are Kazakhstan and Kyrgyzstan, where republican Communist Party leaders and their relatives established themselves as the richest people.

What about the hypothetical countries with dominant restitutional orientation (longing for the interwar “golden age”) and authoritarian regimes implementing shock therapy or gradual reforms? Could post-communist authoritarian regimes with leaders inscenizing themselves as a new Piłsudski, Smetona or Ulmanis rapidly create REC? Such regimes can be usefully compared to the Pinochet regime

in Chile. It is worth remembering that it was the future that some analysts¹⁰ (see in particular Przeworski 1991) envisaged for Central European countries. They constructed the dilemma of marketization versus democratization: these countries will have either sacrificed democracy for the sake of capitalism (because only the authoritarian government will be able to suppress mass upheaval because of a (albeit temporary) decline in welfare, or the market reforms will stop).

After sacrificing democracy for capitalism, Poland could have become *Imiautorshock*, and Hungary could have become *Imiautorgrad*. This was the fate that Slovakia avoided only by a small margin under Vladimir Mečiar. In the end, the sacrifice of democracy was not necessary: the strong mimetic orientation of the broad masses in Central European countries made it possible to resolve both tasks of post-communist transformation simultaneously. For the Baltic countries, the prospect of becoming a *Restautorshock* or *Restautorgrad* was no less real. In Lithuania, such a development was prevented by the failure of the popular vote on the strong presidential authority in May 1992.

Of course, there was no warrant that the hypothetical Przeworskian authoritarian rulers of post-communist countries would have implemented consistent reforms leading to REC. The experience of the former Soviet republics has shown that after acquiring almost unlimited government power, strong presidents implemented partial or minimal reforms. So it cannot be excluded that the authoritarian leaders in the Central European and Baltic countries would have used their power in the same way.¹¹ Then, these states would not have become *Restautorgads* or *Restautorshocks*, *Imiautorgads* or *Imiautorshocks*, but *Restautormins* or *Restautorpairs*, *Imiautormins* or *Imiautorpairs*. The country, which resembled *Imiautopart* most, was Croatia under Franjo Tuđman.¹² Because of an economic culture of the population which would have been different from that of the people in former Soviet Union republics (excluding the Baltics) the outcomes of minimal or partial market reforms would have been more impressive. However, there is no reason to believe that a decade of such reforms would transform the communist

¹⁰ See in particular Przeworski 1991.

¹¹ One can also imagine a different script of how Central European countries could have become instances of *Imiautormin* or *Imiautopart*. Namely, such alternate future could have become reality if the conservatives in the Communist party of the Soviet Union would have removed Gorbachev before autumn 1989, leaving “Brezhnev’s doctrine” (restricted sovereignty of the Soviet satellite states) in power. This would have meant the survival of the authoritarian Communist party governments in Central European countries with the pro-Western mimetic orientation in the population. No doubt that communist regimes would have implemented (in Poland and Hungary – would have continued) market reforms inspired by the Chinese example. Much less probable that they would have succeeded in building REC in ten years. The most probable outcome is state or political oligarchic capitalism.

¹² Nevertheless Croatia was only similar to *Imiautopart* and not its instance. Not being a liberal democracy, it remained an electoral democracy (there were no rigged elections).

economic system into REC. Partial reforms (in *Restautorpart* and *Imiautorpart*) would have led to political oligarchic capitalism, and the minimal ones (in *Restautormin* and *Imiautormin*) – to state capitalism.

Similar conclusions have to be made also about the institutional effects of the minimal or partial reforms even in the cases where they were implemented in the environment of the innovational economic culture. Even in such cases the most likely outcome after a decade of minimal reforms is state capitalism (*Inovautormin*), and in cases of the partial reforms – political oligarchic capitalism (*Inovautorpart*). An empirical match to *Inovautormin* is China's economic reforms of 1978–1989. They did not transform the communist economic system into state capitalism, but made China prepared for much more sustained incremental market reforms, which has already, in the 21st century, completed the transformation of the country into an REC case. On the other hand, if under conditions of innovational economic culture shock therapy style reforms are implemented, only factors not included into the list of the three independent variables could prevent the rapid transformation of an economy into REC.

Next we will discuss those assumptions of the formulas (4) and (6) which do not include Boolean factor politmode {0}. One of them – *Contrevolshock* (orientation {0} politmode {2} econmode {3}) – has already been mentioned, when considering its “cousin” *Contrevolgrad*. It remains to repeat the conclusion that under the lack of legitimacy for capitalism, the absence of elite consensus on coherent market-oriented reforms and the inadmissibility to resort to violence or to appeal to the streets in the struggle for power, the rapid success both of incremental reforms and shock therapy is not likely. Instead, the likely outcome for *Contrevolshock* after the first ten years of post-communism – political oligarchic capitalism and illiberal democracy.

The same is true for *Contrefgrad* and *Contrefshock*. They differ from *Contrevolgrad* and *Contrevolshock* by the assumption about political developments. In the *Contrefgrad* and *Contrefshock*, market-oriented reforms are carried out not by the anti-communist elite that came to power after displacing the communist elite by means of revolution, and thereby had no mass support because of the dominance of continuational orientation. Instead, this is done by the ex-communist elite which presides over controlled democratization from above. This includes the opportunity to enact such a constitution for the democratic state in making, which sets the rules of the game favouring this elite.

This means that while free elections are held and the anti-(ex)communist opposition can build a government after winning the election, its possibilities to govern are constrained. For this end, the ex-communist power elite can create strong non-majoritarian institutions (in particular, strong constitutional courts) with long terms of office, and appoint to these offices in advance its own trustees. The

constitution may contain direct prohibition to carry out certain reforms that could affect the interests of the ex-communist elite. Any constitutional amendments may be made as difficult as possible, requiring more than two-thirds majority, repeated votings and referendums.¹³ Under democratization from the top, the ex-communist elite also has other means to protect its long-term interests: maintaining its influence inherited from the communist era in the force agencies (army, state security police, law enforcement agencies, etc.). Therefore, the democratically elected government has to reckon with the possibility that its decisions may be sabotaged or subverted if they are detrimental to the vital interests of the ex-communist elite.

Among empirically observed cases, Belarus and Russia closest resemble *Contrefgrad* and *Contrefshock*. These countries started their path from communism having democratically elected leaders who had limited possibilities to govern. They had to reckon with the interests and position of the military and security agencies inherited from the communist era, which became power bastions of the old power elite. It is debatable which of the two Boolean expressions – (orientation {0} politmode {1} econmode {3}) or (orientation {2} politmode {1} econmode {3}) – more accurately describes the state of Russia in 1991, when the country entered its path from communism. It is extremely difficult to reflect by the single value combination of three variables the huge inter-regional variety in this huge country.

In my data sets Russia is described as (orientation {2} politmode {1} econmode {3}). But in reality this was only the situation in the Russian metropolitan centres of Moscow and St. Petersburg. As stated above (see 2.1), Russia's territorial structure still displays imperial features. On the one side, a privileged imperial metropolitan centre stands out with a population that is a numerical minority. On the other, there is a periphery exploited and media-manipulated by the centre. Although by its population the periphery exceeds by far the metropolitan centre, Russian political vicissitudes depend on the periphery interests and opinion not much more than the Roman senate decisions were dependent on the opinions of the inhabitants of the Roman provinces. Russia's periphery from the beginning of the post-communist transformation has been and remains oriented continuatively. So the combination of variable values (orientation {0} politmode {1} econmode {3}) is the most accurate description of the initial conditions of transformation in the Russian periphery. However, because of the paramount role of metropolises, (orientation {2} politmode {1} econmode {3}) is preferred.

¹³ This was how ex-communists in Bulgaria attempted to secure their future. According to its current constitution that was adopted on 12 July 1991, parliament can amend the constitution for minor issues with a three-quarter majority. For major changes a Great National Assembly should be elected, where the amendments to the constitution are passed by two-thirds majority in three successive readings. This last procedure is quite impractical and was never used.

So *Contrefshock* can be considered as a description of an imaginary case only with the provision that it may be considered also as the depiction of the road of peripheral or provincial Russia from communism. What the outcome would be is easy to say: the same as in the metropolitan Russia. That is to say, political oligarchic capitalism and semi-democracy, mutating into an authoritarian regime. As for *Contrefgrad*, it is more likely that the post-communist transformation will end with the same results as in Belarus: authoritarian regime and state capitalism.

Similar predictions can be formulated about two other cases that are described by the Boolean expressions containing Boolean multiplier politmode {1}: *Restrefmin* (orientation {1} politmode {1} econmode {0}) and *Imirefmin* (orientation {2} politmode {1} econmode {0}). It is true that in these cases rapid transformation of communism into liberal democratic capitalism is favoured by the restorational and (especially) mimetic orientations of the population plurality. However, it is difficult to expect anything different than state capitalism after minimal market reforms. It is more difficult to predict the political results of transformation. However, the comparison with the most similar empirically observed cases (for *Restrefmin* – this is Serbia, for *Imirefmin* – Russia, Croatia, Belarus), does not provide reason to expect a liberal democracy, although illiberal electoral democracy is a sufficiently realistic prospect in both cases.

State capitalism as the most probable transformation outcome of the communist economic system is also to be expected after the first decade in *Imirevolmin* (orientation {2} politmode {2} econmode {0}), which is similar to Slovakia. This would be a country whose people dream that the political system (and welfare system) would be “like in Sweden”, “as in Austria”, “as in Ireland”, or any other developed Western country selected as the model. *Inovrefmin* is similar to Belarus by minimal reforms and democratization from above. However, *Inovrefminians* are mainly innovative, open people, rather different from the conservative *homines sovietici* prevailing in Belarus. Finally, *Inovrevolmin* is completely detached from reality – among the observed cases there are no such instances that would diverge from *Inovrevolmin* by only one Boolean distance. In the *Imirevolmin* and *Inovrevolmin* anti-communist revolution takes place, but anti-communist governments for some reason carry out minimal market reform policies.

Again, the occurrence of such condition combinations is improbable (therefore, we lack observed cases), but not impossible. Anti-communist revolutionary governments in *Imirevolmin* and *Inovrevolmin* or democratizing ex-communists in *Inovrefmin* can be prevented from the immediate launch of gradual and radical market reforms by military conflict over the separatist ambitions of territorial minorities (and then the project of the transformation of a communist political system into a liberal democracy is also inevitably affected) or by military conflict

with its neighbours. Such conflicts make to delay market reforms to a later date or distort their progress.

It is no coincidence that among the cases most similar to *Imirefmin* we find Croatia and Russia – countries where the post-communist transformation process was heavily influenced by their wars against minorities eager to secede (in Croatia – Serbs, in Russia – Chechens). To get an idea about *Inovrefmin*'s way out of communism, let's imagine, for example, a Belarus inhabited by "better", non-Soviet Belarusians (Belarusian speaking, nationally conscious, business-minded etc.), which just after the beginning of democratization from above gets involved into a war with its neighbour Lithuania over Vilnius, considering this city the country's historical capital city or over Smolensk with Russia, because it considers it an old Belarusian city.

There can be only few doubts about *Imirevolmin* and *Inovrevolmin* that these countries would celebrate the end of the first post-communist decade as fully-fledged liberal democracies. Meanwhile, in the *Inovrefmin* there can only be the hope that the democratic forces by this time will be able to abolish all enclaves of the old nomenklatura power (which would be likely if the hypothetical state-making wars with its neighbours ended victoriously, and unlikely if these wars were lost). For *Imirefmin* (because of its similarity to Croatia and Russia), such hopes appear to be too brave. Therefore, the variable "liberal democracy" for *Inovrefmin* case is coded 1, and for *Imirefmin* – 0.

4.3. All Ways of Post-Communist Transformation

After supplementing the data-set by new unobserved cases and thus increasing the number of the transformation ways to 54 (that of cases or instances – up to 66), we repeat the mvQCA analysis for the liberal democratic capitalism (libdecap) as an outcome.¹⁴ TOSMANA produces two formulas (7) and (8). The first displays the alternative sufficient conditions of communism's transformation into liberal democratic capitalism, the second – the barriers for such transformation.

- (7) $\text{politmode } \{3\} \text{ econmode } \{2,3\} + \text{orientation } \{1\} \text{ politmode } \{2\} \text{ econmode } \{2\} + \text{orientation } \{1\} \text{ politmode } \{2\} \text{ econmode } \{3\} + \text{orientation } \{2\} \text{ politmode } \{2\} \text{ econmode } \{2\} + \text{orientation } \{2\} \text{ politmode } \{2\} \text{ econmode } \{3\} + \text{orientation } \{3\} \text{ politmode } \{2\} \text{ econmode } \{2\} = \text{libdecap } \{1\}.$
- (8) $\text{politmode } \{0,1\} + \text{econmode } \{0,1\} + \text{orientation } \{0\} \text{ politmode } \{2\} = \text{libdecap } \{0\}.$

None of these formulas makes counterfactual assumptions. If we were only interested in the patterns of the pathways to swift success in building liberal

¹⁴ The data set Postcmtrl03.csv is used. See <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtrl03.csv> 23.08.2011.

democratic capitalism, it would be time to rejoice at finding something like a law about them. However, the goal is a strong post-communist transformation theory, which is able to answer several questions of such kind. Therefore, the formulas (7) and (8) cannot be considered to contain final answers even to the first two questions from the list at the end of first chapter. We still have 10 cases that were not discussed. They may turn out to be relevant if the query goes on in search for patterns in the answers to the remaining questions (3)–(10) in 1.3. It may turn out that the assumptions necessary to find them out will also require adjustments in the patterns in the answers to the first two questions.

Let's recall these remaining questions: (1) What are the causal conditions of the fast transformation of the communist economic system into REC and obstacles preventing such transformation? (2) What conditions determine the transformation of the communist economic system into political oligarchic capitalism, and which ones make it possible to avoid this? (3) What conditions determine the transformation of the communist economic system into state capitalism, and which ones helps to prevent this? (4) What are the conditions for the transformation of late communist authoritarianism into liberal democracy and the obstacles for such transformation?

Answering the first three questions the scope of attention is limited to the economic system transformation, while the fourth – to the transformation of political system. Such a limitation is appropriate, because actual cases of post-communist transformation show that the communist economic system can be transformed into REC also under conditions of authoritarianism. On the other hand, not only the experience of post-communist countries shows that the progress in the development of liberal democracy can outpace the achievements in building REC. By answering the second and third question we want to differentiate between the failures of the rapid post-communist transformation.

In answering the question about the patterns for REC, we start with the data set comprising only empirically observed cases.¹⁵ The initial formula for the outcome “rational entrepreneurial capitalism” differs only a little from formula (1) for the outcome “liberal democratic capitalism”, because the set of liberal democratic capitalist countries differs from that of REC only with respect to China and Vietnam. Thus, one just needs to supplement formula (1) with the subformula (orientation {3} * politmode {0} * econmode {2}) covering China and Vietnam, and we will have the initial formula for REC. For reasons of space economy this formula is not written down.

¹⁵ This is the data file Postcmtr100.csv, accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr100.csv> 23.08.2011.

More interesting are the results of the search for a minimal formula, giving TOSMANA full freedom to select scripts. The program provides three alternative formulas about the conditions of the fast success in building REC:

- (9) orientation {3} + politmode {3} + orientation {1, 2} politmode {2} = ratentcap {1}.
- (10) politmode {3} + econmode {2} + orientation {1,2} politmode {2} = ratentcap {1}.
- (11) politmode {3} + econmode {2} + politmode {2} econmode {3} = ratentcap {1}.

The first formula is grounded in 26 scripts, while the other two – in 24 scripts assumed about unobservable cases. For the answer to the question about causes of failure of fast REC, the program offers only one formula (12), based on the 21 assumed scripts:

- (12) politmode {1} + econmode {0,1} = ratentcap {0}.

Intriguingly, like in the explanation of the fast success of liberal democratic capitalism (cp. formulas (3) and (4)), we seemingly have again to choose between a purely institutionalist explanation and a more culturalist one. A culturalist would prefer (9), and an institutionalist formula (11), while the pattern (10) serves as a compromise between the two approaches. However, there is no need to weigh these three formulas, comparing their strengths and weaknesses, as well as to check whether their assumptions are compatible with those for negative outcomes. There are such contradictions, but we do not need to resolve them again. The judgments about which assumptions to select are already made and recorded in the data set for the most unobserved cases.

It would be arbitrary and illogical to assume scripts while answering one question and then forget about them and make quite different counterfactual assumptions while answering another. This is the way the computer software behaves. All its assumptions are *ad hoc*, because it searches for the shortest formula covering all observable cases. For unobserved ones, it is “free” to assume anything that helps for this goal. It even makes contradictory assumptions about positive and negative cases of the same explanatory question.

In this book, multi-value QCA is used, foremostly, as a tool for theory construction. The theory must be consistent, therefore, we cannot make conflicting assumptions not only in response to only one explanatory question, but about all of them taken together. After a contradiction between assumptions for positive and negative outcomes of a condition configuration has been removed by selecting a more likely script and recording the selection in the data file, one should not forget about these selections answering the next questions. However, after a new unobserved case was considered and the most likely script about this case has been selected, we must come back to the patterns already detected and check whether new positings compel us to revise the minimal formulas formerly

derived. The final outcome of analysis would be the logically consistent network of scripts.

This network includes both the descriptions of the observed and those of the unobserved (counterfactual) pathways. In the determinate (strong) theory, these descriptions must cover all possible cases in the logical space defined by the concepts of the theory. There would not remain logically possible cases for which all scripts are likely plausible, and all scripts should be mutually compatible. The crowning part of the theory are generalizations – pattern descriptions, covering both observed and unobserved pathways for all – actually observed and only possible – cases. So we must simply proceed to completely exhaust the logical space of the theory.

This means that looking for a minimal formula that would explain the success versus the failure of the building of REC during the first transformation decade, one should start from using the data set Postcmtr103.csv.¹⁶ It already contains 66 cases with real or most likely scripts (37 of them unobserved, covering 54 from the 64 possible configurations of the initial conditions of post-communist transformation). After performing mvQCA on this data-set, formula (13) for positive cases and formula (14) for negative cases are derived. Pattern (13) assumes quite a few new scripts, and therefore a few additional unobserved or imaginary cases (see table 4.7).

(13) orientation {1,3} econmode {2,3} + orientation {2} econmode {2} + politmode {3} econmode {2,3} + orientation {2} politmode {0} econmode {3} + orientation {2} politmode {2} econmode {3} = ratentcap {1}.

Table 4.7. Unobserved cases in the assumed scripts of the preliminary pattern for successful rapid transition to rational entrepreneurial capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{1}politmode{1}econmode{2}	<i>Restrefgrad</i>	
2	orientation{2}politmode{1}econmode{2}	<i>Imirefgrad</i>	Russia (213), Hungary (232), Slovakia (222)

Formula (14) is much more economical:

(14) politmode {1} + econmode {0,1} + orientation {0} politmode {0,2} = ratentcap {0}.

However, it assumes much more about unobserved cases (see table 4.8).

¹⁶ Accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr103.csv> 23.08.2011.

Table 4.8. Unobserved cases in the assumed scripts of the preliminary pattern for unsuccessful rapid transition to rational entrepreneurial capitalism. Constructed using the program TOSMANA.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{1}politmode{1}econmode{1}	<i>Restrefpart</i>	Bulgaria, Moldova, Mongolia, Romania, Ukraina (011), Croatia (211)
2	orientation{1}politmode{1}econmode{2}	<i>Restrefgrad</i>	
3	orientation{1}politmode{1}econmode{3}	<i>Restrefshock</i>	Estonia, Latvia (123), Lithuania (133), Russia (213)
4	orientation{2}politmode{1}econmode{2}	<i>Imirefgrad</i>	Russia (213), Hungary (232), Slovakia (222)
5	orientation{3}politmode{1}econmode{1}	<i>Inovrefpart</i>	Croatia (211), Bulgaria, Moldova, Mongolia, Romania, Ukraina (011)
6	orientation{3}politmode{1}econmode{2}	<i>Inovrefgrad</i>	Slovenia (332), China, Vietnam (302)
7	orientation{3}politmode{1}econmode{3}	<i>Inovrefshock</i>	Russia (213)

Both assumed scripts (about *Restrefgrad* and *Imirefgrad*) of the minimal formula for positive outcomes contradict those of the pattern about negative outcomes. However, it is not very difficult to resolve these contradictions. Least difficult is to select the most plausible script about *Imirefgrad*, because it has many close similarities with the real cases. This is the case that those analysts have in mind who believe that the reason why market reforms failed in Russia was the choice of shock therapy instead of gradual reforms. From their point of view, *Imirefgrad* is the Russia we have lost: liberal democratic capitalist Russia after the first post-communist decade.

It is difficult to agree with the explanation of the failure of Russia assumed in this argument. As it was argued before (see section 4.2), there were two Russias: that of imperial megapolises (orientation {1} politmode {1} econmode {3}) and provincial *Contrefshock* Russia (orientation {0} politmode {1} econmode {3}). For this Russia, we have predicted political oligarchic capitalism and illiberal democracy as the most likely outcomes. If the Russian government had implemented gradual incremental reforms, then provincial Russia would have become *Contrefgrad*. For this case, REC is not likely. Instead, the assumption is already recorded in the data set that state capitalism is the most likely outcome for that case.

But Russia with its dualist territorial structure (at least two countries in one) is a very special case. If the assessment of the prospects for post-communist

transformation in the *Imirefgrad* uses as its guide different similar countries (Hungary and Slovakia), then one finds more reasons for optimism, especially about the prospect for rapid transformation of the communist economic system into REC. As for the transformation of the political system, one might doubt whether ten years would be sufficient time to eradicate the enclaves escaping democratic control in the state structures. However, one must take note that this process was successful in countries such as Bulgaria and Romania, where, because of the initial dominance of the continuational orientation, the outlooks for liberal democratic countries were much less favourable than in the hypothetical pro-Western *Imirefgrade*. So one can barely doubt that it would meet the tenth anniversary of the collapse of communism as a liberal democratic state.

A much more serious challenge is to ponder over the results of the first post-communist decade in the *Restrefgrad*. It is away from the most similar real cases by at least two Boolean distances. However, many countries that were much more attached to their communist past because of continuational orientation (Bulgaria, Romania, Moldova, Mongolia and Ukraine) managed to enter the second post-communist decade as liberal democratic countries (although their democracy was still unconsolidated). This provides a reason to believe that the same would be the case in the countries with dominant restorational orientation that may be more favourable for such an outcome. Next, if in such a country ex-communists had implemented gradual reforms (instead of partial ones which were carried out in Romania, Ukraine and their likes), then the emergence of REC after the first decade would not have been unlikely.

Thus, the contradiction between the assumptions of the formulas (13) and (14) is resolved favouring the (13) pattern. Can we accept the remaining five assumptions of formula (14) suggested by TOSMANA? Unfortunately, a few doubts arise about *Restrefpart* (orientation {1} politmode {1} econmode {1} = ratentcap {0}). This is because in none of the six countries most similar to *Restrefpart* (Bulgaria, Moldova, Mongolia, Romania, Ukraine and Croatia) did economic transformation bring REC after the first decade. So it is likely that economic reform in the *Restrefpart* would also end in political oligarchic capitalism.

However, it is quite difficult to tell whether after the first decade *Restrefpart* would already be liberal democracy? On the one hand, pro-Western Croatia failed at this. On the other hand, it was established after the first post-communist transformation decade in Mongolia, where ex-communists were very strong. However, Croatia failed to democratize successfully due to extreme conditions of war.¹⁷ If

¹⁷ Differently from other post-communist countries, in Croatia enclaves not subject to constitutional control were not a legacy of the communist time together with military and state security agencies. These agencies were created after communism's demise and became not ex-communist, but authoritarian rightists' power bastions.

we do not assume such complications for *Restrefpart*, then the political outcomes after the first decade would be more similar to those in Mongolia rather than in Croatia. Of course, with the important provision that the “golden age” envisaged in social imaginary of the *Restrefpartian* society would be a capitalist past.

Close similarities with Bulgaria, Moldova, Mongolia, Romania, Ukraine and Croatia are also displayed by another hypothetical post-communist country – *Inovrefpart*. While innovative orientation leaves less room for doubts about the possibility of liberal democracy after the first decade of post-communist transformation than in the *Restrefpart* case, because of partial economic reforms the most likely outcome in the transformation of economic system would be political oligarchic capitalism (POC).

The remaining three assumed scripts of formula (14) are unacceptable. This concerns in particular *Inovrefgrad*. Due to broad support from below for market reforms by an innovative enterprising population, REC was built in China and Vietnam under authoritarian governments. Why not expect the same success under communists implementing democratization from above? This is how the Chinese Communist Party leadership is permanently urged to behave by the promoters of liberal democracy from abroad. It is quite difficult to predict whether such a self-democratizing communist regime would be transformed into a liberal democracy after ten years. However, it would also be politically incorrect to deny such a possibility. So let's be optimists about *Inovrefgrad*, positing liberal democratic capitalism as the most likely case. Political correctness is almost the only reason to believe the same about *Inovrefshock*, because this case is at least two Boolean distances away from the most similar real cases.

This cannot be said about *Restrefshock*. It is quite close to the reality which can be observed. It is similar to Lithuania, Latvia and Estonia by restorational orientation and exit from communism by shock therapy. It is also similar to Russia (more exactly, to Russia of the metropolitan megapolises) by shock therapy and the ex-communist enclaves not subject to democratic control. Assuming that in other respects *Restrefshock* is more similar to the Baltic States than to Russia, it is possible to predict the rapid transformation of the communist system into REC.

On the other hand, because of the dominance of the restorational orientation in this imagined country it can confront the problems on the way to full liberal democracy. Winning the election, nationalist right-wing forces would sooner or later attempt to eliminate ex-communist authoritarian enclaves through purges and lustration, as well as changing the constitution, if it provides immunity for such authoritarian enclaves. This, in turn, may lead to an ex-communist coup or to right-wing authoritarian dictatorship to suppress their resistance. So I should confess that the value 1 for the variable “liberal democracy” that is recorded in the data file is pretty hard to justify for the *Restrefshock*.

After the adding to the date file another seven scripts about the unobserved cases, the total case number increases to 66, of which only 29 are empirically observed.¹⁸ They exemplify 61 out of 64 possible configurations of initial conditions of the post-communist transformation. So only three remain (see table 4.9).

Table 4.9. Residual unobserved cases not considered in the search for minimal patterns in pathways to liberal democratic capitalism and rational entrepreneurial capitalism.

	Initial conditions	Counterfactual case	Most similar observed cases
1	orientation{2}politmode{2}econmode{1}	<i>Imirevolpart</i>	Slovakia (222), Czech Republic, East Germany (223), Albania, Armenia, Azerbaijan, Georgia (021)
2	orientation{3}politmode{2}econmode{1}	<i>Inovrevolpart</i>	
3	orientation{3}politmode{2}econmode{1}	<i>Inovrevolshock</i>	

To avoid unnecessary “loops” in the analysis (the need to review formerly screened patterns after adding new cases to the data set), it is appropriate to include these remainders into the data file now, thus completely exhausting the space of logical possibilities. The *Imirevolpart* case does not present a major problem, because in reality there are sufficiently similar cases. The most important of them is Slovakia. When the prime minister was the controversial populist Vladimir Mečiar, his critics in the country and abroad predicted that Slovakia would soon become *Imirevolpart*: a country which carries out partial economic reform that would soon lead to oligarchic capitalism. Although this did not happen, the prospect of such a development in this country, however, was quite real.

What about the prospects of democracy in the *Imirevolpart*? It is unlikely that in the sufficiently strongly pro-Western oriented country, which has left communism by revolution, the emergence of liberal democracy (even if unconsolidated and of low quality) would have been less likely than in Bulgaria, Romania, Moldova, Mongolia, and Ukraine. These countries were democratized from above by ex-communists; pluralities or even majorities in their population were nostalgic for the communist past, and they lacked the “spirit of capitalism” (a tradition of capitalist economic culture). Nevertheless, they celebrated the 10th anniversary of the exit from communism as liberal democracies. So we record for *Imirevolpart* the variable “liberal democracy” value 1.

It is difficult to predict the outcomes of post-communist transformation for unobserved cases that are so different from the observed ones as *Inovrevolpart*

¹⁸ See data file Postcmtr104.csv, accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr104.csv> 23.08.2011.

and *Inovrevolshock* are. In 6.4, I will argue that *Inovrevolshock* can be interpreted as the way for Slovenia to become Adriatic Estonia. Besides, *Inovrevolpart* and *Inovrevolshock* can be interpreted as two of the three alternative development pathways in China that were available in 1989. One of these alternatives was already discussed above (see 4.2). This is the *Inovrevolgrad* (orientation {3} politmode {2} econmode {2}) pathway (most likely script): the democratically elected post-communist Chinese government continues gradual incremental market reforms. *Inovrevolpart* (orientation {3} politmode {2} econmode {1}) is another alternative of Tiananmen: partial market reforms resulting in a liberal democratic political oligarchic capitalism by 2000. The third alternative is *Inovrevolshock* (orientation {3} politmode {2} econmode {3}): the success of shock therapy implemented by the democratically elected government (instead of gradual incremental reforms that were in fact implemented). These scripts seem most likely if compared with others that involve likewise initial conditions but different outcomes (e.g. REC and authoritarian regime for *Inovrevolshock*).

After adding to the data file the last three cases together with the most likely scripts, we obtain a comprehensive data set. This is what table 4.1 displays.¹⁹ The question may arise whether it was not possible “to disclose the cards” at the very beginning, inscribing into table 1.2 the most likely outcomes for all those 47 configurations of the initial conditions of post-communist transformation which are not observed? However, the step-by-step introduction of cases taking the guidance from the computer program can be justified not only by didactic reasons (to make the journey through possible worlds of post-communist transformation more intriguing).

The very logic of the Boolean minimization procedure is such that the first unobserved cases that find their way into the “field of vision” of the computer program are those which most closely resemble observed ones. The reason: only the unobserved configurations which differ from the observed ones by the values of a single independent variable are considered, assuming that they have identical outcome. The cases that are more remote from the observed cases (differ from them in more than one or in all respects) may be “wanted” only after the addition to the data file of unobserved cases with most likely scripts. By this artifice, cases remote from the observed part of reality are drawn closer to it. Not surprisingly, the list ends with cases co-defined by the variable “orientation” with the value “innovative”. Cases for which this variable has such a value, are most rare among the observations. Therefore, the unobserved cases with such value for variable “orientation” are most seldomly used by TOSMANA to find minimal formulas when it is given full freedom to “experiment”.

¹⁹ See also data file *Postcmtr105.csv*, accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr105.csv> 23.08.2011.

If the reader finds the procedure for theory construction used in this book too radical (all logical space constituted by the concepts of theory are exhausted), a less radical procedure could be recommended. In this procedure, only speculation about the cases that differ from reality no more than Boolean distance equal to 1, would be allowed. Even more stringent “census” for unobserved cases is conceivable: only cases with Boolean distance 1 may be allowed that have at least 2 or 3 counterparts among real cases most similar to them. If we use a rather lax census requiring only one really existing case with Boolean distance equal to 1, then we should eliminate only *Restrefgrad*, *Inovrevolmin*, *Inovrevolpart* and *Inovrevolshock* from the data set that includes all 64 possible configurations. For reasons of page space economy, I provide next only the analysis using the full data-set (Postcmtr105.csv).²⁰ The conservative reader is welcome to replicate it, using Postcmtr106.csv file, from which the problematic cases are eliminated.²¹

4.4. The Laws of Post-Communist Transformation?

Now, it is possible to provide final answers to the questions that were raised at the end of the last section of the first chapter. These are questions about the causes of success or failure of the fast transformation of communism into liberal democratic capitalism, rational entrepreneurial capitalism, political oligarchic capitalism, state capitalism and liberal democracy (of course, in the cases of political oligarchic capitalism and state capitalism the words “success” and “failure” can be used only in quotation marks).

These answers are provided by the following formulas and tables which describe 10 patterns of post-communist transformation. Because my goal was a strong theory of post-communist transformation, these patterns embrace both observed and unobserved cases. I provide two versions of these final patterns. Full (quite explicit) versions are communicated by the tables 4.10–4.19. The middle columns in these tables contains Boolean products (or alternative composite antecedent conditions) which are components in the 10 final patterns of post-communist transformation. In the right column, observed and unobserved cases covered by each of them are listed. Reduced (or edited) versions of the patterns are produced by omitting Boolean products with no observed instances. They are presented next to full tabular versions, even if in some cases there are no differences between the full and the reduced version. Reduced versions (15)–(24) are printed in bold to distinguish them from the formerly discussed preliminary versions.

²⁰ Accessible at <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr105.csv> 23.08.2011.

²¹ See <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtr106.csv> 23.08.2011. One of the findings will be that even having freedom space of only 4 configurations, TOSMANA “manages” to make logically contradictory assumptions.

Table 4.10. Final pattern for the rapid success of the building of liberal democratic capitalism (full version).

	Boolean products	Cases
1	politmode{3}econmode{2,3}+	Hungary, Lithuania, Poland, Slovenia, <i>Contpactgrad</i> , <i>Contpactshock</i> , <i>Restpactgrad</i> , <i>Inovpactshock</i>
2	orientation{1}politmode{1}econmode{2}+	<i>Restrefgrad</i>
3	orientation{1}politmode{1}econmode{3}+	<i>Restrefshock</i>
4	orientation{1}politmode{2}econmode{2}+	<i>Restrevolgrad</i>
5	orientation{1}politmode{2}econmode{3}+	Estonia, Latvia
6	orientation{2}politmode{1}econmode{2}+	<i>Imirefgrad</i>
7	orientation{2}politmode{2}econmode{2}+	Slovakia
8	orientation{2}politmode{2}econmode{3}+	Czech Republic, East Germany
9	orientation{3}politmode{1}econmode{2}+	<i>Inovrefgrad</i>
10	orientation{3}politmode{1}econmode{3}+	<i>Inovrefshock</i>
11	orientation{3}politmode{2}econmode{3}+	<i>Inovrevolgrad</i>
12	orientation{3}politmode{2}econmode{3}=libdecap{1}	<i>Inovrevolshock</i>

The reduced version of this pattern for positive outcomes is:

- (15) **politmode {3} econmode {2,3} + orientation {1} politmode {2} econmode {3} + orientation {2} politmode {2} econmode {2} + orientation {2} politmode {2} econmode {3} = libdecap {1}.**

Table 4.11. Final pattern for the failure in the rapid building of liberal democratic capitalism (full version).

	Boolean products	Cases
1	politmode{0}+	China, Vietnam, Kazakhstan, Kyrgyzstan, Serbia, Turkmenistan, Uzbekistan, <i>Contautorgrad</i> , <i>Contautorshock</i> , <i>Restautortpart</i> , <i>Restautorgrad</i> , <i>Restautorshock</i> , <i>Imiautormin</i> , <i>Imiautortpart</i> , <i>Imiautorgrad</i> , <i>Imiautorshock</i> , <i>Inovautormin</i> , <i>Inovautortpart</i> , <i>Inovautorshock</i>
2	econmode{0,1}+	Albania, Armenia, Azerbaijan, Georgia, Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Croatia, Kazakhstan, Kyrgyzstan, Serbia, Tajikistan, Turkmenistan, Uzbekistan, <i>Contpactmin</i> , <i>Contpactpart</i> , <i>Restrevolmin</i> , <i>Restpactmin</i> , <i>Imipactmin</i> , <i>Inovpactmin</i> , <i>Restrevolpart</i> , <i>Restpactpart</i> , <i>Imipactpart</i> , <i>Inovpactpart</i> , <i>Restautortpart</i> , <i>Imiautormin</i> , <i>Imiautortpart</i> , <i>Inovautormin</i> , <i>Inovautortpart</i> , <i>Restrefmin</i> , <i>Imirefmin</i> , <i>Imirevolmin</i> , <i>Inovrefmin</i> , <i>Inovrevolmin</i> , <i>Restrefpart</i> , <i>Inovrefpart</i> , <i>Imirevolpart</i> , <i>Inovrevolpart</i>
3	orientation{0}politmode {1,2}+	Albania, Armenia, Azerbaijan, Georgia, Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Tajikistan, <i>Contrevolgrad</i> , <i>Contrefgrad</i> , <i>Contrefshock</i> , <i>Contrevolshock</i>
4	orientation{2}politmode {1}econmode{3}=libdecap{0}	Russia

Remarkably, there are no differences between full and reduced versions of the final pattern for negative outcomes:

- (16) **politmode {0} + econmode {0,1} + orientation {0} politmode {1,2} + orientation {2} politmode {1} econmode {3} = libdecap {0}.**

Table 4.12. Final pattern for the rapid success of the building of rational entrepreneurial capitalism (full version).

	Boolean products	Cases
1	orientation{1,3} econmode{2,3}+	China, Vietnam, Estonia, Latvia, Lithuania, Slovenia, <i>Restrevolgrad</i> , <i>Restpactgrad</i> , <i>Inovpactshock</i> , <i>Inovrevolgrad</i> , <i>Restautorgrad</i> , <i>Restautorshock</i> , <i>Inovautorshock</i> , <i>Restrefgrad</i> , <i>Restrefshock</i> , <i>Inovrefgrad</i> , <i>Inovrefshock</i> , <i>Inovrevolshock</i>
2	orientation{2}econmode{2}+	Hungary, Slovakia, <i>Imiautorgrad</i> , <i>Imirefgrad</i>
3	politmode{3}econmode{2,3}+	Hungary, Lithuania, Poland, Slovenia, <i>Contpactgrad</i> , <i>Contpactshock</i> , <i>Restpactgrad</i> , <i>Inovpactshock</i>
4	orientation{2}politmode{0} econmode{3}+	<i>Imiautorshock</i>
5	orientation{2}politmode{2} econmode{3} =ratentcap{1}	Czech Republic, East Germany

- (17) **orientation {1,3} econmode {2,3} + orientation {2} econmode {2} + politmode {3} econmode {2,3} + orientation {2} politmode {2} econmode {3} = ratentcap {1}**

Table 4.13. Final pattern for the failure in the rapid building of rational entrepreneurial capitalism (full version).

	Boolean products	Cases
1	econmode{0,1}+	Albania, Azerbaijan, Georgia, Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Croatia, Kazakhstan, Kyrgyzstan, Serbia, Tajikistan, Turkmenistan, Uzbekistan, <i>Contpactmin</i> , <i>Contpactpart</i> , <i>Restrevolmin</i> , <i>Restpactmin</i> , <i>Imipactmin</i> , <i>Inovpactmin</i> , <i>Restrevolpart</i> , <i>Restpactpart</i> , <i>Imipactpart</i> , <i>Inovpactpart</i> , <i>Restautorpart</i> , <i>Imiautormin</i> , <i>Imiautorpart</i> , <i>Inovautormin</i> , <i>Inovautorpart</i> , <i>Restrefmin</i> , <i>Imirefmin</i> , <i>Imirevolmin</i> , <i>Inovrefmin</i> , <i>Inovrevolmin</i> , <i>Restrefpart</i> , <i>Inovrefpart</i> , <i>Imirevolpart</i> , <i>Inovrevolpart</i>
2	orientation{0} politmode{0–2}+	Albania, Armenia, Azerbaijan, Georgia, Belarus, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, <i>Contrevolgrad</i> , <i>Contautorgrad</i> , <i>Contautorshock</i> , <i>Contrefgrad</i> , <i>Contrefshock</i> , <i>Contrevolshock</i>
3	orientation{2}politmode{1} econmode{3}=ratentcap{0}	Russia

(18) econmode {0,1} + orientation {0} politmode {0–2} + orientation {2} politmode {1}
 econmode {3} = ratentcap {0}

Table 4.14. Final pattern for the emergence of political oligarchic capitalism (full version).

Boolean products	Cases
1 econmode{1}+	Albania, Armenia, Azerbaijan, Georgia, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Croatia, Kazakhstan, Kyrgyzstan, <i>Contpactpart</i> , <i>Restrevolpart</i> , <i>Restpactpart</i> , <i>Imipactpart</i> , <i>Inovpactpart</i> , <i>Restautorpart</i> , <i>Imiautorpart</i> , <i>Inovautorpart</i> , <i>Restrefpart</i> , <i>Inovrefpart</i> , <i>Imirevolpart</i> , <i>Inovrevolpart</i>
2 orientation{0}politmode{2}+	Albania, Armenia, Azerbaijan, Georgia, Tajikistan, <i>Contrevolgrad</i> , <i>Contrevolshock</i>
3 orientation{0}politmode{0} econmode{3}+	<i>Contautorshock</i>
4 orientation{0}politmode{1}econmode{3}+	<i>Contrefshock</i>
5 orientation{1}politmode{0}econmode{0}+	Serbia
6 orientation{2}politmode{1}econmode{3}+ =poligarcap{1}	Russia

(19) econmode {1} + orientation {0} politmode {2} + orientation {1} politmode {0}
 econmode {0} + orientation {2} politmode {1} econmode {3} = poligarcap {1}.

Table 4.15. Final pattern for the non-emergence of political oligarchic capitalism (full version).

Boolean products	Cases
1 orientation{1,3}econmode{2,3}+	China, Vietnam, Estonia, Latvia, Lithuania, Slovenia, <i>Restrevolgrad</i> , <i>Restpactgrad</i> , <i>Inovpactshock</i> , <i>Inovrevolgrad</i> , <i>Restautorgrad</i> , <i>Restautorshock</i> , <i>Inovautorshock</i> , <i>Restrefgrad</i> , <i>Restrefshock</i> , <i>Inovrefgrad</i> , <i>Inovrefshock</i> , <i>Inovrevolshock</i>
2 orientation{2,3}econmode{0,2}+	China, Vietnam, Hungary, Slovakia, Slovenia, <i>Imipactmin</i> , <i>Inovpactmin</i> , <i>Inovrevolgrad</i> , <i>Imiautormin</i> , <i>Imiautorgrad</i> , <i>Inovautormin</i> , <i>Imirefmin</i> , <i>Imirevolmin</i> , <i>Inovrefmin</i> , <i>Inovrevolmin</i> , <i>Imirefgrad</i> , <i>Inovrefgrad</i>
3 politmode{0,1,3}econmode{2}+	China, Vietnam, Hungary, Slovenia, <i>Contpactgrad</i> , <i>Restpactgrad</i> , <i>Contautorgrad</i> , <i>Contrefgrad</i> , <i>Restautorgrad</i> , <i>Imiautorgrad</i> , <i>Restrefgrad</i> , <i>Imirefgrad</i> , <i>Inovrefgrad</i>
4 politmode{1,3}econmode{0}+	Belarus, <i>Contpactmin</i> , <i>Restpactmin</i> , <i>Imipactmin</i> , <i>Inovpactmin</i> , <i>Restrefmin</i> , <i>Imirefmin</i> , <i>Inovrefmin</i>
5 politmode{3}econmode{3}+	Lithuania, Poland, <i>Contpactshock</i> , <i>Inovpactshock</i>
6 orientation{0}politmode{0}econmode{0}+	Turkmenistan, Uzbekistan
7 orientation{1}politmode{2}econmode{0}+	<i>Restrevolmin</i>
8 orientation{2}politmode{0}econmode{3}+	<i>Imiautorshock</i>
9 orientation{2} politmode{2}econmode{3}+ =poligarcap{0}	Czech Republic, East Germany

(20) **orientation {1,3} econmode {2,3} + orientation {2,3} econmode {0,2} + politmode {0,1,3} econmode {2} + politmode {1,3} econmode {0} + politmode {3} econmode {3} + orientation {0} politmode {0} econmode {0} + orientation {2} politmode {2} econmode {3} = poligarcarap {0}.**

Table 4.16. Final pattern for the emergence of state capitalism (full version).

	Boolean products	Cases
1	orientation{2,3}econmode{0}	<i>Imipactmin, Inovpactmin, Imiautormin, Inovautormin, Imirefmin, Imirevolmin, Inovrefmin, Inovrevolmin</i>
2	politmode{1,3}econmode{0}	Belarus, <i>Contpactmin, Restpactmin, Imipactmin, Inovpactmin, Restrefmin, Imirefmin, Inovrefmin</i>
3	orientation{0}politmode{0}econmode{0}	Turkmenistan, Uzbekistan
4	orientation{0}politmode{0}econmode{2}	<i>Contautograd</i>
5	orientation{0}politmode{1}econmode{2}	<i>Contrefgrad</i>
6	orientation{1}politmode{2}econmode{0} = statecap {1}.	<i>Restrevolmin</i>

(21) **politmode {1,3} econmode{0} + orientation {0} politmode {0} econmode {0} = statecap {1}.**

Table 4.17. Final pattern for the non-emergence of state capitalism (full version).

	Boolean products	Cases
1	econmode{1,3}+	Albania, Armenia, Azerbaijan, Georgia, Bulgaria, Moldova, Mongolia, Romania, Ukraine, Croatia, Czech Republic, East Germany, Estonia, Latvia, Kazakhstan, Kyrgyzstan, Lithuania, Poland, Russia, <i>Contpactpart, Contpactshock, Restrevolpart, Restpactpart, Imipactpart, Inovpactpart, Inovpactshock, Contautorshock, Contrefshock, Contrevolshock, Restautorpart, Restautorshock, Imiautorpart, Imiautorshock, Inovautorpart, Inovautorshock, Restrefpart, Restrefshock, Inovrefpart, Inovrefshock, Imirevolpart, Inovrevolpart, Inovrevolshock</i>
2	orientation{0}politmode{2}+	Albania, Armenia, Azerbaijan, Georgia, Tajikistan, <i>Contrevolgrad, Contrevolshock</i>
3	orientation{1}politmode{0}+	Serbia, <i>Restautorpart, Restautorgrad, Restautorshock</i>
4	orientation{1-max} econmode{2}+	China, Vietnam, Hungary, Slovakia, Slovenia, <i>Restrevolgrad, Restpactgrad, Inovrevolgrad, Restautorgrad, Imiautorgrad, Restrefgrad, Imirefgrad, Inovrefgrad</i>
5	politmode{2,3}econmode{2}= statecap{0}	Hungary, Slovakia, Slovenia, <i>Contpactgrad, Contrevolgrad, Restrevolgrad, Restpactgrad, Inovrevolgrad</i>

(22) econmode {1,3} + orientation {0} politmode {2} + orientation {1} politmode {0} + orientation {1-max} econmode {2} + politmode {2,3} econmode {2} = statecap {0}.

Table 4.18. Final pattern for the rapid success of liberal democracy (full version).

	Boolean products	Cases
1	politmode{3}	Hungary, Lithuania, Poland, Slovenia, <i>Contpactmin</i> , <i>Contpactpart</i> , <i>Contpactgrad</i> , <i>Contpactshock</i> , <i>Restpactmin</i> , <i>Imipactmin</i> , <i>Inovpactmin</i> , <i>Restpactpart</i> , <i>Restpactgrad</i> , <i>Imipactpart</i> , <i>Inovpactpart</i> , <i>Inovpactshock</i>
2	orientation{2,3}politmode{2}	Czech Republic, East Germany, Slovakia, <i>Inovrevolgrad</i> , <i>Imirevolmin</i> , <i>Inovrevolmin</i> , <i>Imirevolpart</i> , <i>Inovrevolpart</i> , <i>Inovrevolshock</i>
3	orientation {3} politmode{1}	<i>Inovrefmin</i> , <i>Inovrefpart</i> , <i>Inovrefgrad</i> , <i>Inovrefshock</i>
4	orientation{0}politmode{1}econmode{1}	Bulgaria, Moldova, Mongolia, Romania, Ukraine
5	orientation{1}politmode{1}econmode{1}	<i>Restrefpart</i>
6	orientation{1}politmode{1}econmode{2}	<i>Restrefgrad</i>
7	orientation{1}politmode{1}econmode{3}	<i>Restrefshock</i>
8	orientation{1}politmode{2}econmode{2}	<i>Restrevolgrad</i>
9	orientation{1}politmode{2}econmode{3}	Estonia, Latvia
10	orientation{2}politmode{1} econmode{2}= libdem{1}	<i>Imirefgrad</i>

(23) politmode {3} + orientation {2,3} politmode {2} + orientation {0} politmode {1} econmode {1} + orientation {1} politmode {2} econmode {3} = libdem {1}.

Table 4.19. Final pattern for the failure of liberal democracy during the first decade of post-communist transformation (full version).

	Boolean products	Cases
1	politmode{0}	China, Vietnam, Kazakhstan, Kyrgyzstan, Serbia, Turkmenistan, Uzbekistan, <i>Contautorgrad</i> , <i>Contautorshock</i> , <i>Restautorpart</i> , <i>Restautorgrad</i> , <i>Restautorshock</i> , <i>Imiautormin</i> , <i>Imiautorpart</i> , <i>Imiautorgrad</i> , <i>Imiautorshock</i> , <i>Inovautormin</i> , <i>Inovautorpart</i> , <i>Inovautorshock</i>
2	orientation{0}politmode{2}	Albania, Armenia, Azerbaijan, Georgia, Tajikistan, <i>Contrevolgrad</i> , <i>Contrevolshock</i>
3	orientation{0}politmode{1}econmode{0}	Belarus
4	orientation{0}politmode{1}econmode{2}	<i>Contrefgrad</i>
5	orientation{0}politmode{1}econmode{3}	<i>Contrefshock</i>
6	orientation{1}politmode{1}econmode{0}	<i>Restrefmin</i>
7	orientation{1}politmode{2}econmode{0}	<i>Restrevolmin</i>
8	orientation{1}politmode{2}econmode{1}	<i>Restrevolpart</i>
9	orientation{2}politmode{1}econmode{0}	<i>Imirefmin</i>
10	orientation{2}politmode{1}econmode{1}	Croatia
11	orientation{2}politmode{1}econmode{3} =libdem{0}	Russia

(24) $\text{politmode}\{0\} + \text{orientation}\{0\} \text{politmode}\{2\} + \text{orientation}\{0\} \text{politmode}\{1\}$
 $\text{econmode}\{0\} + \text{orientation}\{2\} \text{politmode}\{1\} \text{econmode}\{1\} + \text{orientation}\{2\}$
 $\text{politmode}\{1\} \text{econmode}\{3\} = \text{libdem}\{0\}.$

The first question to be discussed concerns the philosophical status of these generalizations. In concluding first chapter, I described the goal of my project as a strong theory of post-communist transformation with predictive power, conditional on the availability of the nomological statements reaching out beyond observed cases. Do the generalizations in tables 4.10–4.19 and the statements (15)–(24) deliver according to this promise?

According to the prevailing viewpoint in the philosophy of science, a nomological statement is a general statement which contains no time and place bounded terms and can provide a basis for prediction (see Goodman 1983; Carroll 2004). This is what differentiates the laws from accidentally true general statements. I have already argued (in 1.3) that final generalizations satisfy these minimal requirements, because they include into their scopes both really observed and not observed cases. However, while reading chapter 1, the reader might not have had an impression of what these generalizations would be like. Now their properties and status can and should be discussed in more detail.

Firstly, how can one validate the inclusion of the unobserved cases into the range of patterns? As a matter of principle, although expressions like $\text{orientation}\{1\} \text{politmode}\{1\} \text{econmode}\{0\}$ or $\text{orientation}\{1\} \text{politmode}\{1\} \text{econmode}\{2\}$ describe states of affairs that hitherto were not observed, this does not mean that they are unobservable in principle. One could be reminded that the periodical table of the chemical elements at the time of its invention in 1869 by Russian chemist Dmitri Mendeleev included only some 60 elements. Famously, Mendeleev left free slots for the elements that had not been discovered at this time, and used his table to predict the properties of missing elements, such as gallium or germanium. However, one should speak about the discovery of new chemical elements only with tongue-in-cheek. From circa 118 chemical elements whose discoveries have been confirmed, only the first 94 are found naturally on Earth. The rest are synthetic elements produced in particle generators, and most of them are highly unstable. However, nobody would deny the real existence of, say, the chemical element Meitnerium (atomic number 109) even if actually there is no single atom of it on the Earth, and maybe in the whole universe (the half-life time of its most stable isotop is 8 seconds).

I do not assert that my table 4.1 displays more than only a distant similarity to Mendeleev's table. Strictly speaking, table 4.1 lists not cases, but instances of cases, and should be transformed into a configuration table (containing 64 rows) to be compared with Mendeleev's table. In Mendeleev's table, the cases are or-

dered to reflect periodic patterns in the properties of the elements. In my table, the unobserved cases are listed in the order of how they were added to the initial data set including only observed cases. This order was preferred because the last cases are the most different from the observed cases, lurking in the areas of the property space which is most remote from those we could observe. There are patterns in the properties of cases which transpire in formulas (15)–(24) and in the corresponding tables. However, they are much more untidy than those in the properties of chemical elements, and therefore they are not suitable as principles for the organisation of a classification table.

However, the lesson taught by the history of chemistry should not be ignored: observational evidence is not the sole criterion of reality. Things presently unobserved may be observed some time in the future, possibly after they are artificially produced. The scripts in the rows of table 4.1 which do not have observed instances may be considered also as recipes to produce a particular outcome. This is because each of them contains a set of conditions which taken together are *ceteris paribus*²² complex sufficient condition for a specific outcome. It is not the theory's fault that there is no possibility to produce by experiment communist states with the missing combinations of initial conditions and then to observe how post-communist transformation would unfold. But one must not forget that we still, nevertheless, have two cases that may be used to test the theory: Cuba and North Korea.

Of course, most of my generalizations are not elegant. However, some of them are quite simple, at least in the reduced version e.g. (18) or (21). But this cannot be said about all full versions. Most of them are rather complex. Even the ones that are not most complex would read rather cumbersome if rendered in ordinary language. For example, here is an expression of the generalization (15) into plain English²³: “for all communist states, if authoritarian regimes are preserved, or if minimal or partial economic reforms are implemented, or if continuational orientation prevails and democratization proceeds from above or by revolution, or if imitational orientation prevails, democratization proceeds from above and shock therapy style reforms are implemented, then no liberal democratic capitalism will emerge by the end of the first decade of transformation”.

However, many established natural scientific laws would sound cumbersome in ordinary English. Symbolic notation is invented and used to cope with this predicament for human cognitive accessibility. Most importantly, the assumption that laws are or should be simple may be just an anthropocentric superstition. Luckily, this may be true for part of the fundamental laws of nature. However,

²² I will shortly discuss this clause.

²³ Remarkably, full and reduced versions do not differ in this case.

Giambattista Vico has pointed out, that socio-historical reality, differently from nature is not God's but a human creation, and that perfection is alien to humans. It is possible that we have so few established nomological hypotheses in social sciences because it is generally believed that the laws of the social world (if they exist) are simple. But the truth may be that they are complex. The social world may be the realm of the "unsimple truths" even to a much greater extent than the real world is (see Mitchell 2009).

This is the lesson that some philosophers of science have drawn from the observation of the progress in life sciences during recent decades. "The failure of knowledge claims in biology or other sciences to live up to the universal, exceptionless character of the ideal case does not preclude their functioning as 'laws' generalizations that ground and inform expectations in a variety of contexts" (Mitchell 2000: 262). Sandra Mitchell means under "ideal cases" those fundamental laws in physics (e.g. mass-energy equivalence law $E=mc^2$) that are very abstract, stable and strong. Instead of an attempt to draw a sharp demarcation line between nomological (lawlike) statements and accidental generalizations, one should speak about the "degrees of lawhood" (see Lange 1999) and make a distinction between its different dimensions: (1) level of abstraction or generality, (2) strength, and (3) stability (see Mitchell 2000).

A law's degree of abstraction is measured by how much details are ignored in the concepts used in their formulations to make a visible general pattern. There may seem to be no simplification in the water molecular formula H_2O , because any two molecules of water may seem exactly alike. In reality, there are three hydrogen isotopes, three stable and ten unstable oxygen isotopes. So even so simple a chemical law $2H_2 + O_2 = 2H_2O$ ignores and simplifies a lot.

This is also the case with my concepts of the ideological orientation, economic and political modes of transformation, and those used to describe the outcomes of post-communist transformation. These concepts are pretty much abstract, and the statements that contain them are also rather abstract (see fig. 4.1 below). As a matter of principle, a high degree of abstraction may be of dubious value in social sciences, because its subject matter is affected by the historicity and presence of few (if any) natural kinds. I can only approvingly remind the reader of the classical statement by Robert King Merton about theories of middle range as the most promising goal for the social sciences. And this is a somewhat less famous plea of Reinhart Bendix for the concepts of limited applicability: "comparative sociological studies represent an attempt to develop concepts and generalizations at a level between what is true of all societies and what is true of one society at one point in time and space" (Bendix 1963: 532).

The generalizations (15)–(24) may claim a very high degree of lawhood in the dimension of strength, because they express deterministic causal claims. Gener-

ally, the strength of the determination varies from unique to multiple outcomes for a given combination of initial conditions, and from low probability relations to full-fledged determinism. In social sciences, the prevailing trend is to search for probabilistic patterns. In this book, I am self-consciously deviating from this pattern to explore the potential of the QCA. This technique assumes deterministic causation, and this is not necessarily a fault.

However, if determinism is not a fault but a merit, it has a price. The deterministic causal regularities in social worlds are very weak in the third dimension of lawhood. This is the stability of the relations between types of combinations of initial conditions and those of outcomes. The degree of stability depends on how much this relation is contingent on other conditions that vary both in space and time. The limited stability of the relation between orientations and modes of political and economic transformation on one hand, and the outcomes on another was the main reason to restrict the time scope of the generalizations to the first decade. However, these relations are also very unstable in space. Because of this instability, it is reasonable to supplement at least a part from the 64 statements about the pathways out of communism with the clause “*ceteris paribus*” (other things being equal or held constant; given no disturbing or overriding conditions; unless prevented). Let me explain its use.

The usual problem in the QCA is the problem of the “contradictory rows” (see Ragin 1987: 113–118; Rihoux and De Meur 2009: 48–55). It emerges when the same combination of initial conditions has instances with different values for an outcome variable. There are no such contradictory configurations in my analysis. But this is a significant part due to the circumstance that many pathways have just one observable instance. However, after the set of observations are expanded by new observations (say, after post-communist transformation in Cuba and North Korea starts), such difficulty may become the reality. The usual way to resolve this problem is to supplement the description of initial conditions with the new variables to differentiate between observed cases with different instances. But this comes at a price of a decreasing ratio of observed cases to number of variables which is equivalent of the statistical problem of the too few degrees of freedom.

Another solution would be to supplement the statements describing the pathways with the clause “*ceteris paribus*”. Then one should be advised to read the formula orientation {1} politmode {2} econmode {3} = libdem {1} as “other things held constant, the domination of the restitutive orientation, democratization by revolution and shock therapy market reforms are sufficient to transform a former communist country into a liberal democratic state in 10 years”.²⁴ The reason for this clause: the relation between initial conditions and outcome may be overridden

²⁴ Let me remind, that this pathway has two observed instances – Estonia and Latvia.

by unfavourable (for scripts with positive outcomes) or favourable (for scripts with negative outcomes) conditions and circumstances, but this does not abolish the causal relation between them if there is one.

The amendment of the statements with *ceteris paribus* clauses is broadly criticised as bad practice, because it may immunize them against refutation.²⁵ I neither use nor recommend using the clause *ceteris paribus* for statements about pathways with empirically observed instances. There are no observable combinations of initial conditions with contradictory outcomes among my cases. However, all counterfactual assumptions (statements about unobserved cases) should be interpreted as including a *ceteris paribus* clause. This is only reasonable practice given the evidential basis to ground assumed scripts. This basis consists of comparisons of the unobserved cases with the most similar observed cases and the stock of knowledge accumulated during the more than two decades of research on post-communist transformation. The *ceteris paribus* clause serves to warn us that one of two incompatible scripts is assumed as more likely as much as only the explicitly listed variables are taken into consideration.

So, for example, the script (orientation {2} politmode {1} econmode {2} = libdem {1}) about the Imirefgrad case at this time has no observable instances, although (say), Cuba may become such case in 2012–2025. According to my interpretation, it should be understood in the following sense: “*ceteris paribus* (if no overriding circumstances happen), if a communist country exited communism with dominant imitational orientation by democratization from above and implementing gradual economic reforms, then it is more likely than not that after the first decade of transformation it would be a liberal democratic capitalist (with REC and liberal democracy) state”.

The final 10 generalizations are abstracted both from the scripts about observed and those about unobserved cases, unobserved cases being in the majority. Therefore, *ceteris paribus* clauses are carried over from the assumed scripts to the components (Boolean products) of the final formulas. Some of them include into their range both observed and unobserved cases. Such Boolean products have *ceteris paribus* clauses too. Therefore, these clauses are present also in the reduced versions of the final patterns which contain only components with observed instances, because most of such components cover not only observed, but also unobserved cases. Only the components with only observed cases in their scopes are free from the *ceteris paribus* clause. Let's take as an example pattern (16) for failure to build liberal democratic capitalism in ten years: (16) politmode {0} + econmode {0,1} + orientation {0} politmode {1,2} + orientation {2} politmode {1} econmode {3} = libdecap {0}. Its first three components include into their range

²⁵ For various views on *ceteris paribus* laws see Earman et al. 2002.

both observed and unobserved cases, so they have *ceteris paribus* clauses. However, its last component (orientation {2} politmode {1} econmode {3}) is exemplified only by the observed case (which is Russia). So it is free from this clause.

Although lawlike statements with *ceteris paribus* clause still stand in low repute in the mainstream philosophy of science, which is still fixed on physical laws as paradigms of scientific laws, the situation is slowly changing, as ever more analysts recognize that such clauses are unavoidable in so-called special sciences dealing with complex phenomena.²⁶ But the tribute is still paid to tradition by avoiding designating lawlike statements (no matter whether simple or complex) with a *ceteris paribus* clauses as genuine laws. Instead, they are designated just as “generalizations” or “quasi-laws” (see e.g. Helmer and Rescher 1959). I am also following this usage by calling statements (15)–(24) and their full versions in the corresponding tables as “patterns”. If they occasionally are called laws, then for modesty’s sake they are “laws” – i.e. laws within quotation marks. They are unsimple truths about post-communist transformation, taking into account its diversity and complexity.

This said, I would nevertheless insist that low stability is not the same as no stability. This is the famous example of an accidental generalization with zero stability: “all coins in the left pocket of Nelson Goodman’s jacket on July 2, 1962, 2 p.m are dimes”. The truth of such statements is contingent on pure coincidence, while the relation between the orientations, modes of economic and political transition and outcomes is not coincidental. The stability of the statements with a *ceteris paribus* clause may be very low, but not equal to zero. I claim that this is the case with the statements about the pathways of post-communist transition and patterns displayed by them. Therefore, they satisfy the minimal requirements for lawhood also in its third dimension.

The satisfaction of at least minimal requirements is sufficient for the pattern to be legitimated as genuine. Using the visualization for the idea of lawhood dimensions suggested by Sandra Mitchell, I would locate my patterns in the area circumscribed by the low to middle abstraction ($0.2 < \text{abstraction} < 0.5$), high strength (=1) and very low stability ($0 < \text{stability} < 0.1$) grades. This may be the area where deterministic generalizations in social science cluster, while probabilistic are in the area just below them, because they are lower in strength and slightly higher on stability.

²⁶ Compare different contributions in Earman et al. 2002.

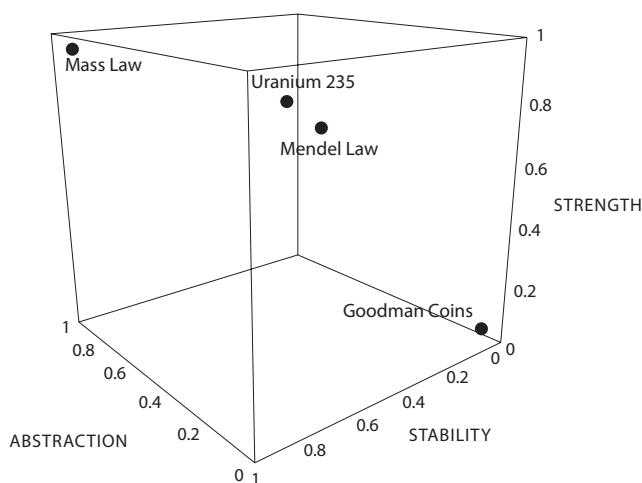


Figure 4.1. **Dimensions of lawhood.** Reproduced with permission of Philosophy of Science Association from Mitchell, Sandra. 2000. "Dimensions of Scientific Law," *Philosophy of Science* 67(2): 263 (© 2000); permission conveyed through Copyright Clearance Center, Inc.

I have already conceded that the final patterns (15)–(24) and those in corresponding tables are too untidy to help reorganize table 4.1 according to the example set by Mendeleev's periodic table of chemical elements or other classifications with transparent patterns. Many patterns can be made tidier by coming back to the cases which are the "culprits" complicating the overall picture, and to revise coding of initial conditions, outcomes or both. This may be done with both observed and unobserved cases.

The first candidate for reconsideration or revision is Russia which stands out as an exception in the final patterns (16), (18), and (24). As already pointed out above, the description of Russia by the Boolean expression (orientation {2} politmode {1} econmode {3}) is not beyond dispute, because it applies only to its metropolitan centres. If it was replaced by the formula applying to Russian province (orientation {0} politmode {1} econmode {3}), then at least one pattern (16) would simplify, because Russia would then become an instance of *Contrefshock*. Alternatively, one can query whether (orientation {0} politmode {1} econmode {1}) is not a more accurate description of the Russian case. There is no shortage of economic experts (curiously, some of them are former advisors of Boris Yeltsin), who put the blame on Russia's failure to transform into a "normal" liberal democratic capitalist state on the partiality of its market reforms. Then Russia would be neatly subsumed together with Bulgaria, Moldova, Mongolia, Romania, and Ukraine under the *Contrefpart* script, with *Imirefshock* (orientation {2} politmode {1} econmode {3}) becoming one of the safe recipes for rapid successful market and political reforms.

As a matter of fact, leading authorities in QCA endorse such “shuttle” movements between data and theory. They mean that QCA may be more useful as a framework for “dialogue of ideas and evidence” leading to the elaboration of concepts and constitution of populations, than as a method for theory testing in the conventional sense (see Ragin 1987: 164–167; Ragin 1999; Ragin 2000: 161; Rihoux and Lobe 2009: 225). However, I will not use this as license to refashion the initial data table to finish with more simple patterns. Such use would mean yielding to the spell of the Cartesian assumption that untidy appearance always hides simple and transparent order. I believe (more congenially to Vico) that in the cognition of social reality we cannot go beyond “unsimple truths” without producing artefacts.

Even if some, or all, patterns (15)–(24) can be refined in ways beyond methodological reproach, I would not like to continue only on my own. I have postponed to the end the answer to possible criticism that seemingly can hit my approach most heavily. It is about the selection of the one from two incompatible scripts for the unobserved cases. Do judgments of which of them is more likely to reflect anything more than the knowledge and beliefs of the author? After all, I have admitted that for many cases (especially those with Boolean distance more than 1 from the next most similar case) the evidentiary basis is quite tenuous.

This criticism is quite correct about the present fruit of my theory construction approach. But I have constructive proposals on how selection of scripts could proceed from a more solid basis. If, say, a husband coming home from vacation at an earlier date, finds at home his spouse with his friend *in flagranti*, different scripts of what will follow are imaginable. However, simple research on which one of them is considered most probable by most people would disclose a remarkable consensus in selecting between the script which says that the friendship will survive and the opposite one. Such consensus may not be so broad and strong on many other topics. However, the situation is not much different when some more arcane topics are discussed by the communities of experts. To find out which of two contradictory counterfactual assumptions (i.e. assumed scripts) are more likely, one is advised to ask experts and to look how broad and strong is their consensus. It may be difficult to implement such a project because of practical reasons. The response rate to the questionnaire mailed from some abstruse sociology department in a small Baltic country to luminaries of transitology at Cambridge, Harvard and similar universities would be exorbitantly small (if any). But some counterfactual assumptions may be validated by the consensus of less busy, expensive and cooperative experts, like students taking classes on the subject (with the opinions of postgraduate students being of special value). The preceding and follow-up discussion would be very useful in terms of didactics.

If the opinions of some 20 (the more, the better; but quality may substitute for quantity) distinguished experts about the relative likelihood of REC, liberal

democracy, POC and state capitalism²⁷ in 47 cases with no observed instances could be collected, then I would have as good evidentiary basis for selection between scripts as (realistically) is possible to have. I frankly declare my readiness to revise all my judgments as reflected by table 4.1, if I remained in the minority. Of course, then also the final patterns (15)–(24) should be exchanged for their better versions.

However, to realize such a collective research project about the patterns of post-communist transformation in reality, we would need the framework to co-ordinate and discipline our questions and answers. Even if I am in error in all my counterfactual assumptions, I would like to claim having submitted a constructive proposal of how research communities could proceed in the pursuit of that “forbidden fruit” – systematic counterfactual analysis (see Lebow 2010; Tetlock and Belkin 1996; Ferguson 1999; Goertz and Levy 2007).²⁸ These proposals (together with practical examples) are about how to make counterfactual analysis a method and apply it for theory construction in social science.

This experiment in theory construction was method driven. It was inspired by the observation that opportunities that were made available by the computer software remain underused. These opportunities are provided by its power to calculate and list counterfactual assumptions of a general statement. Explaining how to conduct Boolean minimization including not only empirical observed, but also only possible cases, the writers on QCA never forget to warn the reader not to trust the software blindly. Instead, one should check counterfactual assumptions for contradictions and substantive adequacy (see e.g. Schneider and Wagemann 2007: 101–109, 143–149). However, it did not occur to me to find a contribution which would provide an example of what such work on counterfactual assumptions would be like and how it would be useful to get to any final conclusions.²⁹ If my substantive generalizations are not that much impressive, my contribution may be of some interest as exploration of the possibilities that are provided by the development of the software environment of the research.

²⁷ The experts do not need to be asked about liberal democratic capitalism, because according to the definition accepted in this book liberal democratic capitalism = REC + liberal democracy.

²⁸ It is odd that counterfactual analysis is only rarely applied in studies of post-communist transformation – if one excludes the occasional attempts to respond to the question of what, after all, would have happened had there not been a certain Mikhail Gorbachev, or what if he had managed to implement his perestroika policies somewhat more prudently. See e.g. Cohen 2004; Derluguian 2004.

²⁹ The only exception is the joint contribution of Charles C. Ragin and John Sonnet “Limited Diversity and Counterfactual Cases” and Ragin’s paper “Easy versus Difficult Counterfactuals” (both published in Ragin 2008: 147–159; 160–170). In the last contribution, Ragin compares the merits and disadvantages of the complex (including only observable cases) and parsimonious (including all cases) minimal solutions, and makes a plea for “intermediate solutions”, including counterfactual assumptions selected by the researcher on a case-by-case basis. He proposes some didactic illustrations for his proposal. My book is most probably the first attempt to use “intermediate solutions” strategy in real research.

While inviting criticisms and collective effort to improve my findings about the patterns of post-communist transformation, I have this time no better tools for my other main goal. This is an analysis of the post-communist transformation in Lithuania in the internationally comparative context. I will concentrate on this goal in the remaining chapters of the book. Generally speaking, patterns of post-communist transformation can be used for different goals and can illuminate different cases. But my use of them will be limited to illuminate a few selected cases. The patterns of post-communist transformation become visible when the details are ignored. In the following chapters, I will be busy with such details. Before going into them and focusing on further queries, let me ask: what is remarkable about Lithuania when it is considered against the background of the general patterns of post-communist transformation?

In the explanation of the rapid success in the building of liberal democratic capitalism, Lithuania is grouped together with Hungary, Poland, Slovenia and four cases without observed instances – *Contpactgrad*, *Contpactshock*, *Restpactgrad*, *Inovpactshock* (see table 4.10 and (15)). They are all covered by the complex condition (politmode {3} econmode {2,3}). This means that comparison with all – both assumed and observed – cases of post-communist transformation does not prove the causal role of restitutive orientation for Lithuanian success. As Lithuania had little experience of democracy in the interwar regime and rather positive memories about the Antanas Smetona authoritarian regime, this makes good sense. Importantly, this does not exclude that such orientation was causally significant for other cases because of the combination with different conditions (e.g. for the rapid success of liberal democratic capitalism in Estonia and Latvia).

Intriguingly, not being causally significant for the rapid emergence of liberal democracy together with REC in Lithuania, restitutive orientation was important for the success of REC when considered separately (see table 4.12 and (17)). Again, this makes sense, because even if a positive valuation of the interwar political system was not helpful in building liberal democracy, positive collective memories about a capitalist economic system were a valuable asset for the rapid success of REC.

Comparing the rows in tables 4.10–4.19 one should notice that some cases (both observed and unobserved) are covered by more than by one antecedent combination of conditions. For such cases, outcomes are overdetermined: they have more than one sufficient condition. One of them could substitute for another, if the first one fell out. According to the findings of the encompassing comparison, Lithuania was in such a happy situation while building REC. Its success can be explained both by restitutive orientation together with shock therapy (orientation {1,3} econmode {2,3}), and by the elite pact in conjunction with shock therapy (politmode {3} econmode {2,3}). Meanwhile the transition of Estonia and Latvia was more risky, because there were no “reserve” or insuring sufficient condition. This is a rather interesting finding because of the popular opinion (at least among

Lithuanians) that the success in replacing communist economic institutions with those of “good capitalism” was very precarious in Lithuania.

This finding is corroborated by the inspection of the table 4.15 and (20). There is no reason to wonder after the finding (orientation {1,3} econmode {2,3}) as one of two alternative sufficient obstacles to block Lithuania’s sliding into POC. The set of conditions that was sufficient to produce an outcome may also be considered as sufficient to prevent a different outcome, if these outcomes cannot overlap. This is how REC and POC are related. More interesting is the alternate obstacle for POC in Lithuania – politmode {3} econmode {3}. It is more specific than the alternate sufficient cause for the early success in the building of REC (politmode {3} econmode {2,3}). The latter expression says that an ex-communist and anti-communist elite pact together with shock therapy or gradual reforms are sufficient for transition to REC. The former expressions adds that in countries like Lithuania, Poland, *Contrapactshock*, *Inovpactshock* only shock therapy could supplement an elite pact to build a sufficient block against POC.

There are no such complications about the obstacles against state capitalism in Lithuania. Like in many more countries (see table 4.17 and (22)), its emergence was prevented by the shock therapy reforms which (no matter successful or not) dispossess the state. The remaining conditions (orientation and mode of political transformation) may be important for other explanatory questions, but they are not causally relevant when answering the question of why no state capitalism emerged in Lithuania after the first post-communist decade?

The answer to the query about causes of the early success of liberal democracy is also short and transparent: this was the implicit pact between the ex-communist and anti-communist elite (politmode{3}), whatever its other effects and consequences (see table 4.18 and (23)). Comparing tables 4.18 and 4.19, one can supplement this finding with a general observation that this mode of democratization was the safest. This is one of the relatively rare situations when QCA discloses a single condition for the outcome of interest. An elite pact warrants liberal democracy for the first decade of post-communist transformation, no matter what the other conditions are, while democratization from above and especially revolution are much more risky modes. Only in half of the configurations that include revolution as exit mode, the outcome is liberal democracy. One finds a similar proportion among observed cases: from 10 anti-communist revolutions, only five ended with liberal democracy by the end of the first decade.

The statement about the beneficial effects of the elite pact for the rapid success of democratization is limited only to the first decade. Later, new populist contenders may arise which do not participate in this pact. If they are successful, the pact may be abolished, as happened in Poland under the Kaczyński twins (see chapter 7). An elite pact may also have detrimental effects on the quality of democracy. But this is a separate problem, for which my variables may be insufficient or even irrelevant.

PART II

Capitalism and Democracy in
Post-Communist Lithuania:
Deepening Comparative Contexts

The purpose of the following three chapters is to apply typological ideas of capitalism and democracy for the analysis of the state and trends in the development of post-communist Lithuania. This is to answer the questions which capitalism and which democracy are in the making in this Baltic state? These questions will be answered in the comparative perspective. However, while in the search for patterns of post-communist transformation all its cases were compared in only a few respects (although never forgetting about Lithuania), in the second part this special case will be compared with a few selected cases in many respects.

This means a deepening of the comparative perspective on Lithuania by focused case-oriented comparisons. In these comparisons, many more variables will be used in addition to orientations, economic and political modes of transformation that were my main analytical tools in the search for the general patterns of post-communist transformation. The deepening of comparative contexts also means the extension of the time horizon, as the analysis in the following chapters is no more limited to the first post-communist decade. It also covers the developments in a few selected countries during the second decade: until 2009 or 2010, depending on the availability of the most recent data.

The distinction between case-oriented (or intensive) and variable-oriented (or extensive) comparative strategies goes back to the groundbreaking book by Charles C. Ragin and since this time is firmly established in the comparative research (see Ragin 1987).¹ I would just like to add the remark that, like most differences the distinction between these two strategies may be more of degree than that of kind. While QCA is a variety of the intensive comparative strategy, case-oriented investigation of this kind is flavoured by the variable orientation because it culminates in the construction of the configuration table and its analysis. This imposes restrictions on the researcher not much different from those in doing

¹ See also Caramani 2009: 9–15, who neatly explains the differences and relations between comparative method, comparative perspective and its extensive and intensive strategies.

conventional statistical analysis. Even if the requirements for the number of cases are less demanding, they remain firmly in place, because one cannot apply QCA techniques without (at the very least) some 8–10 cases.

The case orientation of the intensive strategy is most marked in the comparative research working with quite a few (minimum 2) cases. In such research, the investigator is able to use most fully the findings of the historical or other single outcome idiographic studies, comparing selected cases in a wide variety of aspects. However, such comparison in depth is fruitful or illuminating only if cases are carefully selected, and the selection of cases is explicitly justified.

So what are the reasons behind the case selection in the following chapters? I shall proceed from the assumption that the case orientation should come into play at the earliest possible moment: in the case selection. This means that one should start from internal or emic comparisons: to ask which countries are used as benchmarks by the inhabitants of the country of the foremost interest for the researcher? This is just the phenomenon of the “keeping up with the Joneses” at large. This phenomenon is well researched by sociologists and social psychologists working on the subjectively perceived social inequality, technically designated as “relative deprivation”. Such perception involves self-comparison with neighbours, the observation of their superior achievement and belief that attainment of such achievement was realistic for the observer himself (see e.g. Runciman 1966; Boudon 1982; Hirschman 1981: 39–58).

So I will simply report that Estonians already after the first post-communist decade had firmly established itself in the social imaginary of Lithuanians as the reverently and at the same time enviously observed Joneses. Of course, Lithuania shares with other new members of the EU the long term goal of social and economic convergence with old members of the EU. This goal is stated in official political documents like national agreements between political parties (see e.g. Nacionalinis susitarimas siekiant... 2002) or government declarations. However, the question of why Lithuania is lagging behind Denmark or Germany does not spark any discussions in the Lithuanian mass media, because for most Lithuanians the obvious culprit is “Soviet occupation”.

Estonia is a different case for Lithuanian perception. Along with Russia, Belarus, Poland and Latvia, Estonia is one of a few countries of interest for the rather provincial and introvert Lithuanian media and public. Interest in Russia is conditional on its perception as the greatest wrongdoer in Lithuanian history and the remaining source of threat to its security. Together with Belarus, Russia is considered as an inferior country because of the authoritarian or semi-authoritarian regime and perceived economic malperformance. Poland is perceived by most Lithuanians as the true “Big Brother”. However, the unrelenting and aggressive promotion of the Polish minority privileges in Lithuania by Poland’s government

creates disincentives for the sympathetic interest or learning from the social and economic developments in this country.

Because of the ethnolinguistic affinities², Latvia is perceived as the closest (“brother” or “sister”) country by Lithuanians. This perception involves compassionate sympathy for ethnic Latvians because of their complicated near-to-minority status in their own country. The perception of Latvia is barely tinged by any superiority or inferiority feelings: economic and social achievements of both countries are considered by Lithuanians as essentially equal.

Because Estonia has no common border with Lithuania, it is not Lithuania’s neighbour in the strict geographic sense. However, an absence of the feelings of ethnolinguistic or cultural affinity, memories of grievances or minority problems are no obstacle for lively interest of the Lithuanian media in Estonian affairs. This interest is shaped by the perception of Estonia as a star performer, challenging Lithuanian national pride. “Catch up and overtake America” was once the slogan used by the Soviet ideologists as operational definition of communism. “Catch up and overtake Estonia” may be its present equivalent in Lithuania in how to measure the current progress of country.

Interestingly, this perception of Estonia in Lithuania dovetails with the self-perception of the ethnic Estonians. “Estonians think that Estonia is the best, and Lithuanians think that Estonia is the best” (Tracevskis 2010). There is broad overlap in the “master narratives” that nourish the feelings of self-esteem of Latvians, Lithuanians, and Estonians (see Lehti 2007; Lehti et al. 2008). All three nations share narratives about the Baltic States as tragic victims of Soviet aggression who returned to Europe and now defend Western civilization from authoritarian and aggressive Russia as Eastern border bastions. However, only in Estonia are these narratives admixed by a third one. This is the story about Estonia as a global top performer, representing this country as a model “new West” country who has lessons to teach the allegedly stagnating “old Europe” states. This is how Kristina Ojuland, the Estonian foreign minister, addressed the participants of “European Forum” in Berlin on 15–16 November 2002: “Estonia has on the basis of its reforms and progress, acquired enough self-confidence to be able to address with an innovatory spirit the matter of reforming the European Union” (Ojuland 2002).

Such self-perception is encouraged by the tale about tiny Baltic tigers told by sympathetic external observers. However, only in Estonia was this tale taken seriously by the elite or significant part of the population. During the Parliamentary elections in 2007, the Reform Party leader and present Prime Minister of Estonia Andrus Ansip promised that Estonia would rank among the five richest countries

² Latvian and Lithuanian are the only spoken languages from the Baltic group of the Indo-European languages.

in Europe by 2022 (on a par with Switzerland and Luxembourg).³ If there were any hopes of becoming “Baltic tigers” in Latvia and Lithuania, they did not survive the world economic crisis that severely hit all three Baltic countries. Although Estonian self-confidence was shaken too (see Kirsebom and Zuccheli 2008), the narrative of Estonia as top performer has survived (see e.g. Grover 2009).

The dream of a “new Estonian golden age” was boosted by the country’s joining of the European Monetary Union on January 1st, 2011. While older members of the European Union Greece and Ireland were almost ruined by the crisis, and almost all of them offended against the self-imposed criteria of financial discipline, Estonia managed to keep fiscal balance and to meet Euro convergence criteria: (1) inflation no more than 1.5% higher than the average of the three best performing member states of the EU; (2) the ratio of the annual government deficit to gross domestic product (GDP) not exceeding 3% at the end of the preceding fiscal year; (3) the ratio of gross government debt to GDP not exceeding 60% at the end of the preceding fiscal year; (4) the nominal long-term interest rate no more than 2 percentage points higher than in the three lowest inflation EU member states.⁴

This was only the very last piece in the already long record of achievements that provides Estonian national pride with a rather solid foundation. As early as 1994 Estonia was hailed by foreign economic analysts as “a shining star from the Baltics” (Hansen and Sorsa 1994) for its economic performance. That same year Zbigniew Brzezinski similarly described Estonia as having already advanced into the second stage of transition, whereas Lithuania, together with countries like Bulgaria, Romania, and Slovakia, remained in the first (Brzezinski 1994; see also Jakubowicz 1995; Lauristin and Vihalemm 2009). In 1997, the European Union (EU) recognized Estonia’s stronger performance by inviting it to begin negotiations on accession two years ahead of the other Baltic States.

The “regatta” (race) strategy for the accession to the EU and NATO was replaced by the “big bang” strategy, and Lithuania joined these organisations together with Estonia in 2004. After the recession caused by the Russian crisis in 1998–1999, the economic development of Lithuania speeded up. In 2003, Lithuania, with an annual 9.7% growth in its GDP, outstripped not only Estonia but all the other countries of the European Union. Nevertheless, the gap in economic performance between these countries was not closed. In 2004, Estonia was the only Baltic State whose GDP surpassed the level achieved in 1989 (EBRD 2004: 123, 147, 151). In 2006, Lithuania almost managed to fulfill all Euro convergence criteria, except the first: inflation exceeded the norm by 0.1%. So the country was not accepted into the eurozone.

³ See <<http://bnn-news.com/2011/02/21/baltics/estonia/estonia-plans-rank-europe%E2%80%99s-top5-richest-countries-2020/>> 18.03.2011.

⁴ See <http://europa.eu/legislation_summaries/other/l25014_en.htm> 18.03.2011.

Estonia is almost invariably ranked above other Baltic States in the highly reputed ratings of the established international organisations who globally monitor economic and governance performance (e.g. the Economic Freedom Index, Global Competitiveness Ranking, Corruption Perception Index, Bertelsmann Transformation Index). Estonia earned international fame by introducing one of the first in the world electronic voting systems and consistently applying electronic technologies in public administration.

In chapter 5, I will simply take the lead from the self-comparisons of Lithuania with Estonia, discussing the question that so worries Lithuanians: why did Estonia overtake other Baltic countries? I will discuss the answers to this question in the research literature and supplement its body with my own contribution.⁵ Assessing explanations for the emerging North-South gap in the Baltics, I will also take into account Latvia as a critical test case according to most similar initial conditions, different outcomes comparison design. The Baltic States provide favourable grounds for argumentation in this mode because of many criss-crossing similarities and differences. This allows us to eliminate or limit the claims of some explanations. Even if many claims survive the test, this does not mean the absence of progress, because the test suggests new directions for further research.

In chapter 5, while discussing emerging disparities in the Baltics, I describe the variation in outcomes by conventional macroeconomic indicators such as GDP per capita, inflation and ratings of international organisations. In chapter 6, I will attempt to use for this task the typological concepts of the political economic and economical sociological analysis of post-communist capitalism, presented in the chapter 3. They were illustrated by applications to the Central European states, because these were the favourite cases of the researchers who proposed these constructs. Some researchers apply them also to Baltic countries, while others are more cautious or ambiguous about their typological identity. This topic (which capitalism in the Baltic States?) is central in chapter 6. As was done in chapters 2–3, the application of concepts to cases will be combined with the further elaboration of concepts. This time, the type of rational entrepreneurial capitalism, called dependent market economy (DME), which was introduced in 3.2, will be differentiated into further subtypes.

It may be unexpected for some readers that in the discussion of the typological identity, Lithuania and other Baltic countries will be compared with Slovenia. In geographical terms, it is remote from the Baltic States, and therefore for Lithuanians, Latvians or Estonians it almost never occurs to compare their countries with Slovenia.⁶ The special attention given to this country in my book is moti-

⁵ I will update and elaborate my arguments from Norkus 2007.

⁶ But some Slovenians are eager to compare their country with Estonia (see 6.4).

vated by what methodology of comparative research describes as theoretical case selection. In the research on post-communist capitalism(s), Slovenia is famous as the country that passes most neatly into the varieties of capitalism theory of Hall and Soskice, as the most unambiguous case of coordinated market economy (CME) or social capitalism. Estonia is considered by the same researchers as the clearest case of a post-communist (neo)liberal market economy (see Buchen 2007; Feldmann 2006; Adam et al. 2009). As extreme cases, Estonia and Slovenia may provide limit points for the scale that can be used to locate and to profile Lithuania which is not such an unambiguous case.

Importantly, Slovenia together with Estonia is one of the top performers of post-communist transformation. Goodie-goodie Estonia early on became a darling of international financial institutions due to its anticipating and outperforming compliance with the guidelines for neoliberal economic reforms. Disobedient Slovenia continues to reap their rather mechanical criticism for its innovative gradual approach.⁷ However, even unsympathetic observers must reckon with the statistical evidence that post-communist transformation in Slovenia was not only mildest in terms of the social cost among post-communist countries (except China and Vietnam), but also created a macroeconomically stable and internationally competitive market economy. To remind, Slovenia was the first post-communist country that joined the eurozone in January 1st, 2007. This may indicate that the “there was no alternative” thinking about the ways of transition from a communist economy system to rational entrepreneurial capitalism is false.

Such thinking dominates in Lithuania. In my Lithuanian language publications, comparison with Slovenia served a critical function of questioning this and other “dead certainties” of Lithuanian public discourse (see Norkus 2008a, 2008b). Although my conclusions about the “Slovenian alternative” for Lithuania are negative in the sense that I do not believe that my country could or can become a Baltic Slovenia, I use Slovenia as a beacon case for the normatively oriented discussion of the alternative outcomes of post-communist transformation. And even if Lithuania did not become a “second” or “laggard” Slovenia, its Eastern neighbour Belarus may still become.

The chapter about the political developments in post-communist Lithuania at the very end of the book corresponds most closely to the definition of an interpretative case study in the methodology of social science. Differently from post-communist capitalism in Lithuania, which is an under-researched subject, there is no lack of comparative studies on various aspects of the post-communist democracy which cover Lithuania together with other cases, or case studies discussing

⁷ One is invited to read European Bank for Reconstruction and Development transition reports which in the Tibet praying mill fashion repeat the same criticisms of Slovenia each year. See <<http://www.ebrd.com/pages/research.shtml>> 18.03.2011.

in detail various aspects of the political system or process in this country.⁸ This again means a selection problem, but this time it is selection of what may be most interesting about Lithuanian politics for a broader international audience of social researchers.

My solution is to focus on the removal by impeachment of the popularly elected president Rolandas Paksas in 2003–2004. The reason is the apparent uniqueness of this event in post-communist democratic politics. The discussion of the background and that of the aftermath of this episode involves comparisons with neighbouring Baltic countries and Poland. Because of its size and the regional heterogeneity, Poland is of little use for a typological examination of Lithuanian capitalism. However, size may matter in politics much less than in economics. Besides, the measurement of Boolean distances has disclosed that along with the Baltic States this country is one of the three most similar to the Lithuanian case among all post-communist countries (see 4.2). This is why Poland is used as a contrast case in the search of deeper meaning in the Paksas affair.

⁸ However, some of the best works of this kind are accessible only in Lithuanian language. See e.g. Krupavičius and Lukošaitis 2004; Laurėnas 2001; Matonytė 2001; Ramonaitė 2007; Šabajevaitė 1999; Žiliukaitė et al. 2006; Rubavičius 2010.

CHAPTER 5

Why Lithuania “Lagged” Behind Estonia?

This chapter takes up the question which is tackled again and again in Lithuanian mass media both by concerned citizens and analysts: why was Estonia least hit by the transformational recession in the early 1990s, why it recovered first and performed best among Baltic States? In the first section, the differences in the macroeconomic performance of the Baltic States are reported. The next two sections discuss the received wisdom in the explanation of these differences. The second section examines the explanations which focus on the real or alleged advantages of Estonia in the internal and external economic conditions at the beginning of post-communist transformation. The third section criticizes the political-economic explanation which blames the Lithuanian ex-communists who governed in 1992–1996. This explanation fails to account for the Latvian case, which was quite similar to Estonia in terms of political economy, but performed even worse than Lithuania economically. The fourth section provides an elaboration of the culturalist explanation (Weber’s thesis for the Baltics), and the final section returns to the Latvian case asking why Latvian Protestant cultural heritage did not help this country to overtake Catholic Lithuania. This section also presents the final discussion of the conjuncture of causal conditions favouring Estonia.

5.1. A North-South Gap in the Post-Communist Transformation of the Baltic States as a Problem of Explanation

The discussion of the emerging gap between Lithuania and Estonia must start with an important clarification. When researchers in democratic transition compare Baltic countries, their judgment is in favour of Lithuania (see e.g. Linz and Stepan 1996: 401–433). While restoring their independent states, only in Lithuania were all permanent residents of the country granted citizenship rights. Latvia and Estonia only recognized as their citizen those persons who were their citizens in 1940, as well as their descendants. Because of international pressure on Latvia and Estonia the initially strict naturalization requirements were softened. Howev-

er, the democratic regimes in both countries are still decried by some researchers as ethnocratic (see e.g. Juska 1999).

There is no discord between the experts about the causes of this “democracy gap”. The much more intensive immigration into Estonia and Latvia in the Soviet times brought down the proportion of ethnic Estonians from 88% in 1934–1935 to 62% in 1989, and that of Latvians respectively from 77% to 52% (OECD 2000: 22). As for Lithuania, the proportion of ethnic Lithuanians as a total population was about 80% in 1989, so neither the broad masses of ethnic Lithuanian, nor their political elite perceived the inclusive citizenship as a threat to its dominant ethnic majority status.

There is no reason to believe that Lithuania’s political elite at the time of these extraordinary politics would have made different constitutional choices if the ethnic population structure had been similar to that of Estonia and Latvia. The political elites in all the Baltics were guided in these decisions by the mental models that assumed a crucial role of ethnic divisions in politics. However, because of the different demographic structure, the Lithuanian political elite had no reasons to fear the “worst case” scenario, which haunted Estonian and Latvian politicians: Russophone parties becoming an influential force in local politics and pushing the Baltic countries into the influential sphere of their home country.

However, by the logic of these self-confirming fears, exclusionary citizenship laws drew cleavage lines in the Estonian and Latvia polities for decades to come. The ethnic cleavage became paramount in these countries. The peripheric role of this cleavage may be considered one of the greatest achievements of the young Lithuanian democracy, whatever its other defects, and formative diseases. The Polish minority unanimously continue to vote for the Polish election action (*Akcja Wyborcza Polaków na Litwie*) lists, but most of the Russian speaking voters do not vote for parties promoting the Russian cause in Lithuania. They choose among the liberal, left-wing or populist national political parties.

In this regard, one can find a positive aspect even in the much deplored success of the populist Labour Party in elections to the *Seimas* of the Republic of Lithuania in October 2004. Even in the exemplary Western European democracies, it is difficult to imagine that so many¹ ethnic French or ethnic German voters would vote for the party whose leader not only does not belong to the “titular” ethnic group, but had also immigrated to the country some 15 years before. Voting for the party founded by Viktor Uspaskich, a number of Lithuanian voters showed that the stereotype of the xenophobic and ethnocentric “average Lithuanian” lacks substance, although this stereotype is pervasive not only in the Western media,

¹ In this election, Uspaskich party won 39 seats in the Lithuanian *Seimas*, membering 144 representatives.

but can also be found in the works with research intent (see, for example, Lieven 1993).

However, the picture is rather different when we compare the Baltic countries economic performance. Again we find a gap, but this time it separates Estonia, as the most successful country in the Baltics, from Lithuania and Latvia. Estonia had very early on (in the middle 1990s) established its reputation as leader. As the data on GDP dynamics presented in table 5.1 and figures 5.1–5.2 disclose, the decline of gross domestic product (GDP) during the period of economic recession in Estonia was smaller than in other Baltic States. Moreover, recovery of the economy in Estonia started earlier, and the country in turn achieved better macroeconomic results. In 2004 Estonia was the only Baltic state whose GDP surpassed the level reached in 1989 (see EBRD 2004: 123, 147, 151).

Table 5.1. The growth in real GDP in Central and Eastern Europe, Baltic States and Commonwealth of Independent States (CIS) during the first decade of post-communist transition. Data source: European Bank for Reconstruction and Development (EBRD) 2001: 59.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	GDP in 2000 (1989= 100)
Albania	-10.0	-28.0	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	7.3	7.8	7.0	103
Bulgaria	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5.8	4.0	71
Czech Republic	-1.2	-11.6	-0.5	0.1	322	5.9	4.8	-1.0	-2.2	-0.8	3.1	3.5	98
Estonia	-6.5	-13.6	-14.2	-8.8	-2.0	4.6	4.0	10.4	5.0	-0.7	6.9	4.5	83
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.2	5.2	4.5	104
Latvia	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	6.5	64
Lithuania	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-3.9	3.9	4.0	65
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0	2.0	117
Romania	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6	4.0	76
Slovakia	-2.5	-14.6	-6.5	-3.7	4.9	6.7	6.2	6.2	4.1	1.9	2.2	3.0	103
Slovenia	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.5	4.6	3.8	5.2	4.6	2.2	114
Central and Eastern Europe and the Baltic States	-6.6	-10.3	-2.2	0.3	3.9	5.4	4.8	4.9	3.4	2.6	4.0	2.9	107
Belarus	-3.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	2.5	85
Russia	-4.0	-5.0	-14.5	-8.7	-12.7	-4.1	-3.5	0.9	-4.9	5.4	8.3	5.5	63
Ukraine	-3.4	-8.7	-9.9	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.8	7.0	42
Commonwealth of Independent States (CIS)	-3.7	-5.6	-13.7	-9.3	-13.8	-5.2	-3.5	1.0	-3.7	4.5	7.9	5.8	61
Central and Eastern Europe, the Baltic States and the CIS	-5.0	-7.9	-9.1	-5.1	-6.1	-0.4	0.1	2.2	-1.1	3.0	5.5	4.3	72

The numbers presented in table 5.1 do not show that some market reforms in Lithuania were implemented a little later or in a less radical version, as compared to Estonia. To remind the reader (see chapter 2.1), those reforms included: 1) macroeconomic stabilization, 2) liberalization of economy, and 3) privatization. The governments of all three countries implemented the most important measures of economic liberalization at the turn of the year 1991–1992, when after their international recognition (including recognition by the collapsing USSR), they took over those levers of power (control over borders and customs) which were crucial for autonomous economic policy.

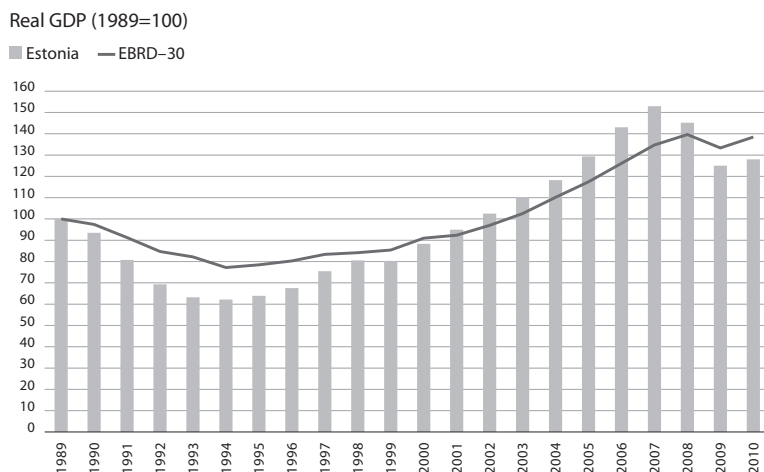


Figure 5.1. GDP of Estonia in 1989–2010. Reproduced with the kind permission of the European Bank for Reconstruction and Development from EBRD. *Transition Report 2010*. Paris, 2010, 113.

Estonia managed to achieve a breakthrough in its policy of macroeconomic stabilization in 1992, as it was the first among former Soviet republics to introduce a national currency. In the same year, Latvia succeeded in getting hyperinflation under control too. Lithuania only achieved this in 1993–94 with the active help of the International Monetary Fund (IMF) and the World Bank (WB) who controlled the economic policy of Lithuania, monitoring the implementation of the standard package of economic reforms known as the Washington Consensus (see 2.2).

Remarkably, the Estonian government, on its own initiative, implemented measures of market reform policy that surpassed in its radicalism the demands of international organisations. The government of Estonia abolished all import duties; but ultimately, under the pressure of international organisations (particularly during the period of joining the EU), it was forced to impose them

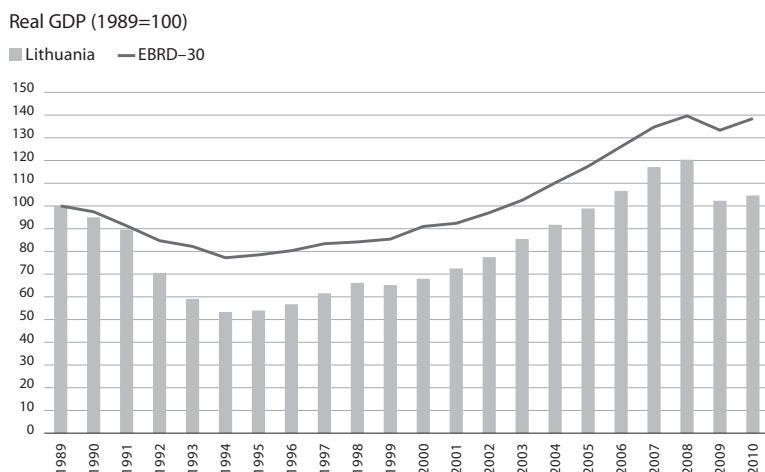


Figure 5.2. GDP of Lithuania in 1989–2010. Reproduced with the kind permission of the European Bank for Reconstruction and Development from *EBRD. Transition Report 2010*. Paris, 2010, 127.

again. As for the Lithuanian government, it implemented comparable measures only later, less consequently and under the pressure of international financial organisations. For the “homework” that was not done in due time, these institutions threatened the Lithuanian government with not opening new credit lines on favourable terms. However, in some cases (e.g. the decision to compensate rouble deposits that had been devalued because of inflation) the Lithuanian government persisted in its policies despite heavy objections by international financial organisations.

This situation repeated later, during accession talks with the European Union. As a matter of principle, Estonia did not ask for any transition periods for any branch of its economy. Lithuania negotiated for such periods and in some cases succeeded in getting them. Sometimes (especially under the government of the ex-communist Lithuanian Democratic Labour Party in 1992–1996) some observers were under the impression that the Lithuanian government preferred not shock therapy, but gradual market reforms.² If Estonia performed as the top pupil, Lithuania’s performance was positioned between medium reformers and laggards.

How can one explain this gap in the course and outcomes of economic transformation of the Baltic North and South? This problem can be expressed by two

² I will argue that this impression was misleading. In some respects (privatization) Lithuania outpaced Poland by its market reforms which is broadly (but not unanimously) considered as another paradigm case of shock therapy. See 2.2.

more specific questions: (1) Why was economic recession in Lithuania deeper than in Estonia? and (2) Why did economic recovery in Estonia begin earlier than in Lithuania and lead to superior macroeconomic results?

Estonia's superior economic performance during the first transition decade has generated much interest and a variety of different explanations. Ritsa A. Panagiotou (2001) has divided these into three "schools", each of which emphasizes a different explanatory factor, as follows: (1) Estonia's geographical location (Hansen and Sorsa 1994; Kala 1994; Kallas 1996; Weber and Taube 1999); (2) its economic structure upon attaining independence (Nørgaard et al. 1999; Nørgaard 2000); and (3) its macroeconomic choices after independence (Hansen and Sorsa 1994; Saavalainen 1995; Budina 1997; Nørgaard et al. 1999). Explanations (1) and (2) can be described as purely economic, whereas explanation (3) can be classified as political-economic, in that it emphasizes political differences – chiefly the fact that, unlike Estonia, Lithuania was ruled during the period of transformation (1992–96) by an ex-communist party with an alleged preference for a "gradualist" economic transition policy (Mygind 1997). According to Panagiotou's own explanation, the social and cultural capital accumulated over the Soviet era was larger in Estonia than in Lithuania and Latvia. In particular, the preparations for implementation of the IME (self-managing Estonia) program in 1988–1991 meant that Estonia had a more competent elite to reform the economy. Panagiotou therefore expands the list of "schools" to four with a culturalist explanation.

5.2. An Economic Explanation of Lithuania's Falling Back

If one observes that governments pursue identical goals (in this case, to build working market economies) using different means (policies), or if these policies have different macroeconomic outcomes, one can search for causes of these differences either in the differing initial conditions, or in different external conditions. Comparing the external conditions of the Baltic States, Estonia had an obvious economic advantage due to its geographical proximity to Finland. The abolition of all export and import duties made Estonia an attractive place for weekend shopping trips for lots of Finns. Estonia (and Latvia) could profit more from the role of offshore and a transit country for Russia's "wild capitalism" than Lithuania could because Lithuania's banking sector, transit, and mediation services was relatively less developed.

However, doubts remain whether these differences are sufficient to explain the variation in the economic performance of Baltic countries. I will go back to the role of the "Finland factor" in the closing section of this chapter. At this point, I would like to pinpoint the fact that Finland's economy was in a deep recession in

the early 1990s, caused by the breakup of traditional trade and economic cooperation relations with the former USSR after its dissolution. In 1993, unemployment soared in Finland, up to 18% of the total labour force (Alestalo 2000: 58). Because of this recession, Finland could barely play the role of “economic locomotive” for the economy of Estonia in 1991–1994, although its neighbourhood became an important advantage for Estonia in later times. As for deeper involvement into the mediation, banking, and transit services for “wild” Russian capitalism, this involvement also had its negative side which transpired during the banking crises in Estonia in 1994 and 1998.

Proceeding to the differences in internal initial conditions, one can find more similarities than differences between Baltic countries, and one can eliminate many explanatory hypotheses.³ All three countries are in the same climate zone and have rather similar endowments with natural resources. The only important difference is oil shale mining in Estonia. However, given world prices for energy resources in the 1990s and environment pollution it seems to be more a liability than an asset for Estonia’s economy.

Estonia’s economy in Soviet times may have been less structurally distorted by “socialist over-industrialization” and “negative added value” (if calculated using relative prices revealed by the international competition) industries than other Baltic economies (see e.g. Nørgaard 2000: 175). Among the Baltic States, Latvia suffered most from this plight, hosting most “all-union” enterprises with the widest range of inputs, which were viable only as parts of the centrally planned Soviet economy. Producing sophisticated, but technologically outdated output, they had little chance of surviving shock therapy.

However, these are only guesses which at this time are not verified by the thoroughgoing comparative research on the economic history of the three Baltic countries during the late Soviet time. Rather, they are contradicted by available findings of the econometric research, which display the picture of the basic similarity of the economic situation of all three Baltic States at the exit point from communism (see De Melo et al. 2001).⁴ Fig. 5.3 displays the results of factor analysis of the variables measuring various aspects of the late socialist economies. Importantly, this analysis enables one to assess internal economic conditions of the post-socialist economic transformation in the Baltic States in a broader comparative setting (see fig. 5.3).

³ On the state of economies of Baltic countries at the beginning of economic transformation see Shen 1994; Van Arkadie and Karlsson 1992. See also Haavisto 1997.

⁴ See De Melo et al. 2001.

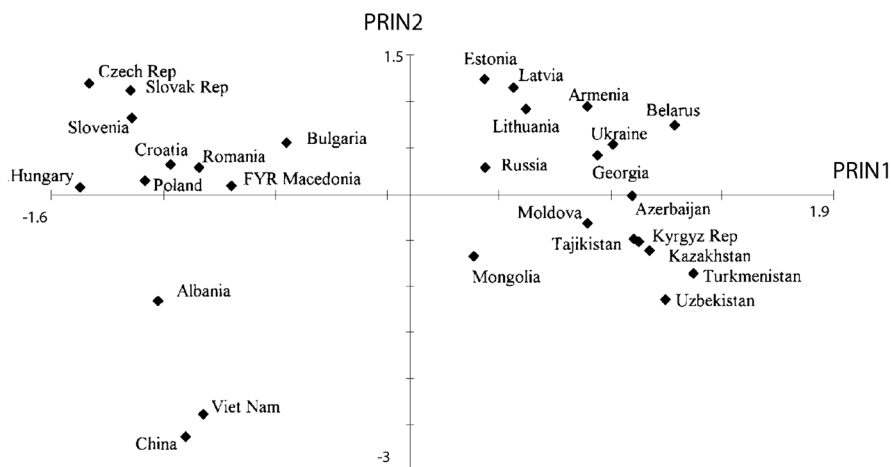


Figure 5.3. **Initial conditions of the post-communist economic modernization.** Reproduced with permission of Oxford University Press from De Melo, Martha; Denizer, Cevdet; Gelb, Alan; Tenev, Stoyan. 2001. "Circumstances and Choice: The Role of Initial Conditions and Policies in Transition Economies," *The World Bank Economic Review* 15(1): 21 (© 2001); permission conveyed through Copyright Clearance Center, Inc.

A principal component analysis of initial conditions extracts two factors which can provide a framework to compare initial conditions in the economies of the transition countries. The first factor, represented by the vertical axis in fig. 5.3, accounts for 43% of the total variation in the initial conditions. It considers GDP per capita in 1989, the distance between the country's capital and the EU (Brussels), the share of employment in industry, agriculture and services, the years the country lived under central planning, and macroeconomic imbalances at the beginning of transition. The second factor (represented by the horizontal axis in fig. 5.3) considers the value of trade with the Comecon states over GDP in 1989, the initial private sector share in GDP, and the share of the population living in urban areas. All three Baltic states cluster in the same area, being barely distinguishable.

While comparing the internal economic conditions of Baltic countries, it is important to take into account the fact that they became most similar at the end of the Soviet period. Lithuania was once a relatively underdeveloped country in comparison with Estonia and Latvia. In the second half of the 19th century, as railway lines connected Baltic sea ports in contemporary Estonia (Narva and Tallinn) and those in Latvia (Liepaja and Riga) with inner areas of the tsarist empire, they grew into important industrial centres. As for Lithuania, it remained during the time when it was part of the Russian empire an agrarian periphery with peasant agricultural production mainly for household consumption and with weak urban development. As for the greater part of neighbouring Latvia, by 1914 it was one of

the few regions of tsarist Russia that satisfied most of the criteria of modernity as formulated by the sociology of development (see Kahk and Tarvel 1997: 83–102).

Nearly half (with the exclusion of Latgale, more than half) of Latvia's population lived in cities, where the industry was concentrated on producing for an all-Russian market. The absolute majority (as in Estonia) of the population was literate. Agriculture had already been thoroughly commercialized in the 19th century. Therefore, Latvia had already passed the closing phase of the so-called demographic transition (modernizing demographic revolution), arriving at the demographic regime characterized by small families with small numbers of children and low birth rates. On the eve of World War I, Riga was famous as the "Paris of the Baltics", one of the cultural metropolises of Europe which perished in August 1914. Riga attracted intensive immigration from Lithuania. From these times, "the pejorative image of a Lithuanian as dirty, shiftless, landless labourer lingers in Latvia to this day" (Lieven 1993: 182).

The gap in the level of social-economic development between Estonia and Latvia on one side, and Lithuania on another, continued into the interwar time, when the economic development of all three Baltic countries had an agrarian orientation. Industrialization in Lithuania took off only during the Soviet period, in the 1950s–1970s. The National Communist leadership of the Lithuanian Communist party successfully resisted Moscow's plans to build new industrial objects in central cities (this was the way in which industrialization proceeded in Latvia and Estonia). Instead, Lithuania's regional development plan was realized, leading to the emergence of many new smaller industrial centres in the formerly agrarian and rural localities.

In contrast to Estonia and Latvia, increasing demand for a labour force was satisfied in Lithuania not by means of immigration from other Soviet republics, but by migration into cities from Lithuanian villages, which were characterized by relative overpopulation (because of higher birth rates which could be causally related to the traditionalist Catholic attitudes of Lithuanian peasants in the questions of reproductive behaviour). In this way, due to its late modernization and industrialization Lithuania was preserved from massive changes in the ethnic composition of the population that took place in Latvia and Estonia during the years of Soviet occupation. Despite significant immigration from other Soviet republics, by the end of the Soviet era the proportion of ethnic Lithuanians in the total population was greater than ever during the 19th and 20th centuries. By the same token, at the time of the dissolution of the Soviet Union, Lithuania had already caught up with its neighbours in its economic and social development (Gyls 2002).

Taking into account the prehistory of the differences in economic performance during the post-communist transformation, one can formulate the problem in an

even more precise way: Why, despite the convergence of the economic development between Baltic countries under Soviet governance, did the gap between the Baltic North and South emerge again, with the cleavage line shifting to the North (before 1940, Lithuania was behind both Estonia and Latvia; since 1991, Lithuania together with Latvia has been behind Estonia)?

The output of factor analysis allows one to present the problem in an even more dramatic form. According to this output, initial conditions in all three Baltic countries were very similar, being less favourable than those enjoyed by Poland, the Czech Republic and Hungary. How did Estonia manage to perform better than one could forecast from the data on initial internal conditions? To formulate the same question with a different contrast class: How did Estonia manage to achieve a performance similar to that of Central European countries, although initial internal conditions in Estonia resembled more those of other Baltic countries (and other republics from the European part of the USSR) than those in Central European countries? Another question of interest is why the running order is different from that in pre-communist times? Why has Latvia lost its prior position as leader?

5.3. A Political-Economic Explanation: Does the Blame Lay on Lithuanian Ex-Communists?

I will designate as “political-economic” the explanations provided by those authors who answer these questions by foregrounding the differences in the socio-political conditions and political processes in the Baltic countries. These are, firstly, differences in the basic cleavages that provide a basic structure for those processes: which conflict lines or political problems are most important? What are the differences in the party structure of political systems and in the relative influence of political parties?

The most obvious difference between Lithuania and other Baltic countries is that only Lithuania has, among other legacies, a strong ex-communist party from the Soviet era, which made a spectacular return to power after victory in the election to the Lithuanian parliament (*Seimas*) in 1992. The ex-communist government was in power during the critical years of market reform. So the first hypothesis that asks for attention is that ex-communists are the main culprits for the relative backwardness of Lithuania, because they enacted policy that possibly corresponded to the short-term perceived interests of their electorate but have retarded the country’s long-term progress. The argument of Danish political scientist Niels Mygind which follows is representative of this kind of explanation. In this argument, Mygind answers the question why voucher privatization, providing workers with priority rights to buy out enterprises and become their owners, was the dominant privatization method in Lithuania (see also Nørgaard

et al. 1996: 146–150; Nørgaard 2000: 174–179).⁵ “Lithuania has the more homogeneous population with the same culture, same ethnic and religious background, than Estonia and Latvia <...>. The cultural split has meant that the broad group of employees were weakened in the process of independence and further economic and political transition. This is the basic explanation behind the change in policy which limited the advantages for employees in Estonia and Latvia. Such a change did not happen in Lithuania. Here was no ‘national question’ to distract the political debate from economic problems of transition, and the workers were not weakened by an ethnic split. Therefore, there was a reaction at the election. The labour party went into government and the conditions for further support for employee ownership were improved” (Mygind 1997:144).

Why in Estonia and Latvia were there no strong ex-communist parties similar to the Lithuanian Labour Democratic Party (LLDP)? The different fortunes of national communism in the Baltic countries are key to answering this question.⁶ In the Estonian and Latvian Communist parties, national communist tendencies were suppressed very early. In Estonia, the local Communist party was purged of national communists in 1949–1950. Latvia followed in 1959 (Prigge 2004). After these purges, the leadership of the Communist parties was dominated by “Russian” Estonians and “Russian” Latvians. These were russified functionaries who nominally belonged to a titular nationality and were sent in from the centre to replace local cadres. In addition, because of the different ethnic composition of the population, Russian speakers were represented much more strongly, both in the nomenklatura and in the lower ranks of the party. So the prevailing majority of the ethnically Estonian and Latvian population could perceive communists or their heirs only as alien “others” or “Moscow agents”. Together with social-economic or socio-cultural modernity going back to pre-communist times, this is one of the reasons why I classified communism in Estonia and Latvia as representing its bureaucratic authoritarian type in the sense of Herbert Kitschelt (see 1.1).

Like in other bureaucratic authoritarian communist countries, Estonian and Latvian Communist parties had no broad support among the population, except the increasing immigrant Russian speaking minority (see Taagepera 1981). Established in already modern⁷ countries, communist regimes had no modernizing record. In Lithuania, communists could claim social and economic modernization as their merit and could seek accommodation with society, taking the shape

⁵ Nørgaard combines a political-economic explanation with the thesis that Estonia enjoyed more favourable initial conditions in the economic sphere.

⁶ About national and other types of late communist system see 1.1.

⁷ In the Estonian case, one can speak only about cultural modernity. If one takes Weber’s thesis about the role of Protestantism seriously, one can classify as culturally modern Protestant agrarian and rural countries.

of national communism after its totalitarian phase. “Unlike the Communist Parties in Estonia and Latvia, the Lithuanian Party had deeper roots in local society” (Kasekamp 2010: 174).

The Lithuanian communist elite displayed remarkable cohesion, cemented by the cult of Antanas Sniečkus (1903–1974), who from 1936 remained the leader of the Lithuanian Communist party. Of course, the amount and scope of discretionary policy available to the Lithuanian national communists was very limited. Similar to their counterparts in Croatia and Slovenia, but differently from those in the classic cases of national communism in Hungary and Poland, Lithuanian national communists did not rule over, even if nominally, an independent country. So they could realize their covert nationalism only by the sponsorship over development of national culture and lobbying for allocation of funds more favourable to local needs.

In due time (December 1989), the nationalist Communist leadership of the Lithuanian Communist party dissociated the local Communist party from the CPSU and managed to consolidate its reputation as a political power that was both leftist and national at the same time. In Latvia and Estonia, communists were eliminated from the political process by means of prohibiting the Communist party. This was part of the democratic anti-communist revolutions in these countries.

The democratic revolution from below was the mode of political transformation characteristic for all former bureaucratic authoritarian communist countries. Here parts of the population were capable of autonomous self-organisation due to the experience of modern social life in the pre-communist time. The most impressive demonstrations of such self-organisation was provided by the Citizen Committees grass roots movements in Estonia and Latvia. It took a very short time for the civil society to reemerge in these countries after its violent suppression at the beginning of Soviet occupation.

Radicalism is a characteristic feature of the revolutionary mode of change, no matter what its overall direction is. However, anti-communist democratic revolutions in Estonia and Latvia by far exceeded in radicalism its equivalents in East Germany and Czechoslovakia, because in the Baltics their essential component became exclusionary citizenship laws. One should not forget that Estonia and Latvia were the only countries where the collapsing communist power managed to mobilize mass support (Interfront movements), so the supporting groups could not avoid paying the usual price the defeated side must pay. Real or only suspected counterrevolutionaries were deprived of voting rights.⁸ This was the most massive “lustration” in the post-communist world. In this way, left-wing

⁸ Except for participation in local elections, which was allowed in Estonia for post-1940 immigrants.

parties lost the bulk of their potential electorate, and right-skewed party system in both countries took shape.

The side-effect was the creation of the playing card for neighbouring Russia to posture as defender of the Russian speaking minority and to interfere in the internal affairs of Estonia and Latvia. In Lithuania, Russia was stripped of this card by the granting of these rights to all permanent residents of Lithuania by 1990. Worrying more about the Russian threat, Estonians and Latvians more consistently vote for the rightist parties, giving them a free hand to implement radical neoliberal economic policies. "In Estonia it has also been possible to pursue a tight monetary and financial policy because Russian speaking minority continues to be largely excluded from political influence <...>. The Russian speaking voters at the large state-owned enterprises, who will be those most affected by the economic readjustment, have not been able to vote in national elections and have thus had no direct possibility to influence economic policy. The same powerlessness applies to the leaders of these enterprises" (Nørgaard et al. 1996:146).

The political-economic explanation implies that the deficiencies of political systems that made Estonia and Latvia allegedly "ethnocratic" democracies preserved them from the post-communist government and postponement of economic reforms. This implication can be expressed by the counterfactual statement: if Russian speaking immigrants were granted citizenship rights, the first parliamentary elections under independence would have brought to power leftist governments that would have protracted a transformational recession, its course and outcome being the same as in the Lithuanian case. Who else, if not leftist and populist parties, could win the votes of the majority of the Russian speaking population, if Estonia and Latvia had citizenship laws similar to those in Lithuania?

What damage did the post-communist government allegedly cause the Lithuanian economy? As was already hinted above, the LLDP government preferred the method of privatization known as "insider privatization": employees had priority rights to buy out "their" enterprises for vouchers (see Frydman et al. 1993; Rothacher 2002: 12–16; Soós 2010). However, the use of this method left the enterprises under the control of earlier managers. Enterprises received no new investments or technologies. After privatization, the enterprises continued to work in old ways until they perished under mountains of increasing debt. Besides that, managers of big plants and factories that had lost their usual markets and were over their heads in mutual debts were part of the old national communist nomenklatura. After the post-communist return to power they used old connections for economically unproductive activities called "rent seeking" in the new political economy (see Aslund 2002: 3–4, 109–112, 191–196).

Despite its *prima facie* plausibility, the political-economic explanation confronts a number of difficulties, inviting doubts that it pinpoints the main causes

of Lithuania's poorer market transformation performance. Not only the outsiders of post-communist transformation (Bulgaria, Romania) but also some of its pioneers (Poland and Hungary) were, for some time, under ex-communist rule. However, the most difficult challenge for the political-economic explanation is the Latvian case. Although Latvia, like Estonia, was permanently ruled by the right or right-of-centre parties, their policies did not produce better economic results than in Lithuania (see fig. 5.4).

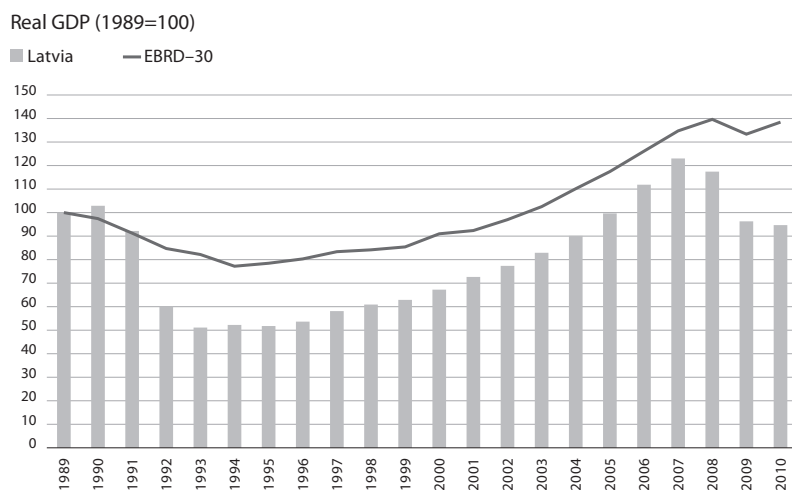


Figure 5.4. GDP of Latvia in 1989–2010. Reproduced with the kind permission of the European Bank for Reconstruction and Development from EBRD. *Transition Report 2010*. Paris, 2010, 125.

The Latvian policy of macroeconomic stabilization was no less resolute than that in Estonia. However, other market reforms (especially privatization) were even slower and more inconsistent than in Lithuania. After the first decade of market reforms, key economic indicators in Latvia were not superior to those in Lithuania. On the other hand, the Lithuanian Right did not behave like their Estonian counterparts while in power.

After the Reform Movement of Lithuania (*Lietuvos Persitvarkymo Sąjūdis*) led the country to independence, its core was transformed into the greatest and most influential Lithuanian rightist party (Lithuanian Conservatives/Homeland Union; *Lietuvos Konservatoriai/Tėvynės Sąjunga*). The economic policy of this party was essentially different than in its Estonian “sister party” with a similar name – Homeland Union (*Isamaaliit*), which was the core party in the rightist coalition during the crucial time of market reforms (1992–1996). While in opposition in

1992–1996, Lithuanian Conservatives initiated a referendum on 27.08.1994 with the purpose of reversing the privatization (“prichvatization”) and compensating the rouble deposits annihilated by hyperinflation. This populist action of Conservatives put at risk the process of market reforms. Although the referendum vote failed because too few voters (83.63% “yes” for the Conservatives proposal by 36.89% participation) came to vote⁹, the ex-communist government was forced to promise to begin the compensation of rouble deposits after the state’s financial situation improved.

In reality, only the Conservatives themselves started to implement this promise after their return to power in 1996. Defying the objections of international financial organisations, the government under Conservative Prime Minister Gediminas Vagnorius used for this goal the revenue from the privatization of big infrastructure enterprises that were sold for hard currency. The first fruits of economic recovery were used for the consolidation of the elements of the welfare state that had survived economic hardship. Estonian Conservatives were neoliberals, who self-consciously followed the example set by Margaret Thatcher’s economic policies. The only Lithuanian government from the first decade of market transformation that implemented economic policies which can be described with some degree of approximation as “social-democratic”, was that under Conservative Prime Minister Vagnorius in 1996–1999.

One can describe a kind of paradox in Lithuanian politics during the first decade of transition: while in power, the nominally leftist (ex-communist) government implemented policies that are usually designated as “neoliberal”, while the nominally rightist party both in opposition and in power stood for policies that are designated as “social-democratic” in the political context of “rich democracies”.

5.4. A Culturalist Explanation: “Weber’s Thesis” for the Baltic Countries?

The difficulties of the political-economic explanation of the reemergence of the gap between the Baltic South and North provide a reason to give more serious consideration to the hypotheses that attribute these differences to cultural causes. Generally, they are avoided by researchers who were trained as economists. The reasons are methodological and methodical problems: firstly, the very definition of the concept of culture and its operationalization. Secondly, these problems derive from a shortage of data necessary for empirical control of such explanations.

So some authors have argued that the social and cultural capital accumulated over the Soviet era was larger in Estonia than in Latvia and Lithuania, and that,

⁹ See <<http://www.vrk.lt/dynamic/files/742/referendumusuestine2008.doc>> 19.03.2011.

owing to the IME program, Estonia had more ideas and people available to reform the economy (Van Arkadie and Karlsson 1992: 103–104; Panagioutou 2001). The IME program, however, was built on the assumption that Estonia would remain part of the USSR. It was a plan to build ‘market socialism’ in one country, and differed very much from the radical neoliberal reforms that were implemented during the period 1992–1994.

Even more importantly, the Mart Laar government implemented a *de facto* lustration, thereby largely removing the former communist elite that served as the main carrier or embodiment of cultural and social capital from the Soviet era. This was an essential part of the democratic revolution from below in Estonia. In Lithuania with its pact between ex-communist and anti-communist elites, the bulk of the national communist “old cadres” were able to keep their jobs and positions. Fredo Arias-King (2003) considers radical de-Sovietization as crucial for Estonian success. He argues that youth, courage and the low level of administrative competence on the part of the Estonian leaders implementing reform often benefited rather than inhibited the reform process at the beginning of this period of extraordinary politics.

This may be important for an explanation of why perceived corruption is less in Estonia than in Lithuania.¹⁰ Lower levels both of perceived corruption and real corruption (much more difficult to measure) had economic consequences, helping Estonia in competition for FDI and decreasing transaction costs in doing business. However, de-Sovietization was barely any less radical in Latvia. Many of the functionaries within the state apparatus and a majority of senior managers of state-owned enterprises were ethnically non-Latvian, and aligned themselves most with the pro-Moscow “Interfront” during the struggle for independence. Their political discrediting meant that they could be removed after August 1991, paving the way for young ethnically Latvian officials with a politically correct record. The career of the famous president of Latvia’s central bank, Einars Repše, can serve as a case in point. But Latvia’s performance in the perceived corruption is much worse than that in Lithuania.¹¹ So the differences in the cultural capital of the governing elite in Lithuania and Estonia, although obvious and important, are barely sufficient in themselves to explain Estonia’s comparative success.

However, this does not mean that culture did not matter. I will argue that the differences in culture that could have more important economic consequences were located not only in the governing elite, but also in the broader population. Important evidence about these differences is provided by the data of the survey

¹⁰ According to *Corruption Perception Index* data for 2010, Estonia was in 26th, Lithuania – 46th, Latvia – 59th place in the list including 178 countries. See <http://www.transparency.org/policy_research/surveys_indices/cpi> 19.03.2011.

¹¹ See previous footnote.

by the European Value Survey Group and research network World Values Survey in 1990.¹² This data demonstrates considerable differences in value attitudes of the populations of the Baltic countries just before the start of market transition (see table 5.2).

Table 5.2. The differences in basic value orientations between Lithuanians, Estonians, and Latvians in 1990 (percentage). Data source: *World Values Survey 1990*, <<http://www.wvsevsdb.com/wvs/WVSDData.jsp>> 18.03.2011.

	Lithuanians	Estonians	Latvians
Religion is important in respondent's life	44.0	21.8	29.6
Respondent was educated in a religious family	68.3	17.9	37.4
Respondent believes in a personal God	51.9	14.6	20.9
Death is inevitable, it is pointless to worry about it	28.4	89.6	79.2
General disapproval of abortion	69.2	42.8	48.0
General disapproval of divorce	55.1	29.8	38.2
When jobs are scarce, employers should give priority to men	67.8	42.7	33.2
In the long run, hard work usually brings a better life	41.2	65.6	50.4
The course of events is decided by particular persons	80.1	50.2	61.2
If an unjust law were passed by the government I could do nothing about it	85.8	65.7	75.7
Income should be made more equal	75.2	60.2	71.2
State is under obligation to warrant high living standards for elderly people	95.3	70.9	87.4
The enterprises should be directed by the state or employees	40.5	22.9	23.3

Importantly, one can explain these differences only by the lasting features of the cultural tradition and mentality that are inherited from older times. During the Soviet era, all three Baltic countries were considered by the central government in Moscow as parts of the same economic region ("Pribaltika"), subject to uniform economic policy. In the cultural sphere, there was a basic similarity in treatment too. The populations of all three countries were indoctrinated by the same ideology, with the cultural policy pursuing the goal of educating a "new human being". Therefore, cultural differences between Baltic countries that existed in 1940 or 1945 could only be decreased by the shared experiences of the Soviet era. So the

¹² See <<http://www.worldvaluessurvey.org>> 18.03.2011. This survey had as its source of inspiration the concept of culture advanced by Ronald Inglehart: "culture is a system of attitudes, values, and knowledge that is widely shared within a society and transmitted from generation to generation" (Inglehart 1990: 18).

very large cultural differences in 1990 that are evidenced by survey data can be explained only by the causes that were at work before the onset of the Soviet period.

The German researcher Katrin Mattusch used this data to substantiate the culturalist explanation of the gap between the Baltic North and South. This is her interpretation of the data from the table 5.2: “Lithuanians remained very religious despite the pressure of Soviet atheism, they take guidance from traditional values in family life, are personalistic, fairly authoritarian, have high demands of equality to community, believe that one can achieve little in life and society by her/his own efforts and are less disposed towards capitalist ideas of property and distribution. Estonians are more secularized, they conceive family roles in a less traditional way and display the individualistic, autonomous, and achievement-oriented understanding of their role in the society. They have internalized to a lesser degree the requirements of equality (although they accustomed themselves to the socialist provision state (*Versorgungsstaat*) too). They provide more support for capitalist ideas of management and differentiation. With respect to all these basic value ideas, Latvians take the middle position between Lithuanians and Estonians. It seems that this culture is characterized by a mixture of different traditions” (Mattusch 1997: 81–82; see also Mattusch 1996).¹³

Writing about different cultural traditions in the Baltics, Mattusch refers to the Lutheran Protestant tradition rooted in the German culture on the one side, and the Catholic tradition, which was tintured by the influence of Polish culture, on the other. In the 13th century, the German Swordsmen order and the Kingdom of Denmark conquered and baptised the ancestors of modern Estonians and Latvians. The ancestors of modern Lithuanians founded the Grand Duchy of Lithuania that from the 16th century became part of a common Polish-Lithuanian state. In this way, the territories of modern Estonia and Latvia were included into the sphere of German high culture, while Lithuania was subject to the very strong influence of Polish high culture, leading to the complete polonization of its ruling elite.

In the 16th–17th centuries, Protestantism became the dominant religion in Estonia and in two thirds of Latvia (Kurzeme and Vidzeme). The Reformation movement was very strong in Lithuania in the 16th century too. However, in the next century it lost out to Catholic counter-reformation. Catholicism could defeat Lutheranism in Eastern Latvia (Latgale) too, because since the middle of the 16th century until 1772 Latgale was part of the Polish-Lithuanian state. Because of these differences in the history of the Baltic States, “Lithuanians are the most traditionalist and have internalized capitalist culture to the least extent; Estonians are the most anti-traditionalist and are most strongly attracted to capitalist values” (Mattusch 1997: 87).

¹³ See also Mattusch 1996.

Mattusch insists that the reemergence of the gap in the economic development between the Baltic North and South can be most readily explained by the famous “Protestant ethic” thesis of Max Weber in 1905: “The ‘Protestant ethic’ worked in the Baltics as a switchman for the ‘breakthrough’ of capitalism and its rapid consolidation, because the initial state in Estonia was more favorable than that of Lithuania, which was shaped by Catholic tradition. This initial level was represented by Protestant tradition, and, after its separation from its religious roots, by the norm structure that retained its shaping power after 50 years of socialism” (Mattusch 1997: 91).

Although the survey data provides support for a causal hypothesis relating the reemergence of the gap in the economic development between the Baltic North and South to cultural differences between Baltic countries, they are insufficient to corroborate Mattusch’s much more specific statement (Estonia’s superior performance can be explained as a another case of Weber’s famous thesis). Weber’s precise statement was that not all kinds of Protestantism are equally favourable to the emergence of the type of economic activity and economic system designated by him as “rational capitalism”. He attributed the contributory causal role only to the currents of Protestantism described by him as “ascetic Protestantism”. A causally important aspect of this kind of Protestantism was a set of values and informal norms constituting a specific economic ethic with the idea of “professional calling” as its core. Weber excluded from the scope of his thesis Lutheran Protestantism, only classifying as “ascetic Protestant” Calvinism, some Protestant sects and so-called “secondary” forms of ascetic Protestantism (Pietist movements in Calvinism and Lutheranism, and Methodism in the Anglican Church) (Weber 1958 (1905): 95–96, 144). However, the dominant confession in Estonia and the larger part of Latvia was orthodox Lutheranism that was never considered “ascetic Protestant” by Weber.

However, a more elaborate analysis of the religious history of Baltic countries provides sufficient evidence – or so I will argue – in favour of an explanation of the recent differences in the performance of Baltic countries along the lines of Weber’s thesis. More specifically, one can find in the history of Latvia and especially in that of Estonia religious movements that had sufficient power to influence the way of everyday life in the direction of its rationalization and systematization. These movements inculcated the Latvian and especially Estonian folk culture and economic mentality with features that can be considered as a lasting cultural legacy of these movements. In the next section, I will supplement Mattusch’s argument by historical analysis of the historical-cultural specificity of this legacy and its origins.

There is another strong reason against the straightforward application of Weber’s thesis to the Baltic countries. The Christianization of Estonians and Latvians

was rather superficial both before and after the Reformation, because Lutheranism was closely associated with German landlords hated by local peasant populations. The offices of Protestant pastors were under the patronage of landlords, and the pastors were simply their attorneys. Besides that, the absolute majority of pastors were Germans, many of them without sufficient knowledge of local languages. “Given the different languages and given that the spoken Latvian of the clergy was frequently seriously flawed, there must have been many misunderstandings if not, at times, the absence of effective communication” (Plakans 1995: 58). During the revolutionary events in 1905–1907, German pastors stood next to German landlords as targets of revolutionary terror (see Petersen 2002: 87–91). However, there was no terror against Catholic priests in Lithuania during similar events in the autumn of 1905. One can even be tempted to explain a much weaker religiosity of contemporary Estonians and Latvians (cp. the table 5.2) by the less deep inculcation of their cultures with Christian faith in the distant past.

However, it is wrong to assume that the history of Protestantism in Baltic countries is identical to that of official Lutheranism. In the 18th century, the governorates Estland and Livland¹⁴ in tsarist Russia were one of the most important areas of diffusion for the Pietist movement known as “Herrnhuters” or Moravian Brethren.¹⁵ The origins of this movement go back to the 15th century when in Czechia and Moravia the followers of Jan Hus staged the general rehearsal of Reformation. Early in the 18th century, they resettled from Czechia and Moravia to Saxony, fleeing prosecution by Habsburg authorities and the Catholic church. In Saxony, they settled down in the possession of Graf Nicholas Zinzendorf in the locality of Herrnhut (this explains the broadly used name of their denomination). Zinzendorf got involved in the internal affairs of the community, and presided over the renovation of its organisation and life. Under Zinzendorf’s leadership, the evangelic Brethren community (*evangelische Brüdergemeine* – this is another one of its many designations) existed for some time as a part of Saxony’s Lutheran church. After the split, it was reestablished as a distinct and separate Protestant church.

Max Weber considered Herrnhuters as one of the “secondary” forms of ascetic Protestantism (Weber 1958 (1905): 128–139, 178, 247–249). As was already mentioned above, their most important cases are the Pietist movements that emerged inside the Calvinist and Lutheran churches at the turn of the 17th–18th centuries. Pietists considered as marks of “true” Christianity not the dogmatically correct belief, but piety (wherefrom the very name of “Pietism” derives), love of God, deep

¹⁴ Estland and Livland are not identical with contemporary Estonia and Latvia. The governorate of Estland encompassed Northern Estonia, and that of Livland – South Estonia and one third of contemporary Latvia (Vidzeme).

¹⁵ On the history of Herrnhuter movement in Baltic countries, see Harnack 1860; Nerling 1956; Pivoras 2000: 30–31; Plitt 1861; Tobien 1930: 116–139; Webermann 1956.

inner religious experience and daily conduct in life. In the last respect, there were no significant differences between Pietism and other forms of ascetic Protestantism. In Germany, the Brethren community was one of the three currents of Pietism alongside Halle's and Württemberg Pietism as its two kins. However, only the Herrnhuter movement launched large-scale mission activity and therefore managed to acquire more than local significance.

In the Baltic governorates of tsarist Russia, Moravian brothers began their activities in the 1730s in the locality of Volmar (contemporary designation: Valmiera). They were invited by Magdalene Elisabeth Hallart, the widow of general Ludwig Hallart who had served in the Russian army. In 1736, Zinzendorf himself visited Baltic governorates. In 1738, the seminar of Moravian brothers was established in Volmar with the goal of educating preachers from persons of ethnically Estonian and Latvian descent. From Volmar, the Herrnhuter movement spread to Estonia where it managed to take much more deeper roots than in Latvia, where its diffusion area remained limited to Vidzeme. "Generally, one can assert that Pietism was spread much more widely in Estland (or generally, in the territory with Estonian speaking population) than in the part of Livland with Latvian speakers; this fact explains its greater cultural significance in Estonia" (Webermann 1956: 156).

On the demand of a significant part of the Lutheran clergy, the Russian government banned the Brethren community in 1743. However, due to the favourable attitude and tacit tolerance of many landlords, Herrnhuters could continue their activities in spite of formal prohibition. Landlords were captivated by the changes in peasant behaviour in the localities with a strong Herrnhuter presence. In these localities, drinking, premarital births, and petty village crime sharply decreased. An account from 1791 by Baltic German artist Karl G. Gross depicts Herrnhuters as more well-to-do and better educated than other peasants, and claims that "even the best pastors with their reasonable sermons cannot accomplish anything comparable to the results obtained by a simple mitten-maker from Zinzendorf's school. These preachers have a wonderful influence on the virtues of the people; the weak grow strong, the lazy work hard, the irascible turn cheerful and the drunkards and the dissipated mend their vices" (according to Ābols 2002: 79).

Although many Lutheran pastors perceived Herrnhuter deacons and presbyters as competitors, they were impressed by Herrnhuters' achievements in the fight against folk customs, which were considered by them as remnants of heathenism. Of course, these achievements were only at the cost of the annihilation of the many features and traditions of the traditional folk culture (Raun 2001: 53). The characteristic features of the Herrnhuter way of life were temperance, cleanliness, choir singing, religious self-education and the writing of autobiographies. These autobiographies are the oldest surviving documents providing literary expression of the inner world and subjective experiences of the common Estonian and Latvian people.

The Russian empress Catherine II revoked the ban on the Herrnhuter movement in 1764. But the movement reached its highest point between 1814 and 1825, when it was under the personal patronage of Russian emperor Alexander I, who during the last decade of his life sympathized with Pietism. On October 27th, 1817 he issued the manifest of grace which allowed for Herrnhuters to build prayer houses. Such houses, which served for meetings of the Herrnhuter prayer circles, became a characteristic feature of the rural landscape in Estonia and Northern Latvia in the 19th century.

Although the total number of the members of the Herrnhuter community never exceeded 50,000, their influence was much more significant than one can surmise from this number only. "Herrnhuters were the first national movement of Latvians and Estonians that won public acceptance and has great historical significance because of the following reason: although at the culmination point they were not in the absolute quantitative majority, it is beyond all doubt that they were a morally dominant power for rural people" (Tobien 1930: 124). Admission into the Brethren community, and especially into its inner circle (second and third hour (*Stunde*)) was a highly desirable symbol of social recognition that could be won only by exemplary behaviour. This is the description of the position of Herrnhuters in Livland's rural society, provided by Baltic German historian Alexander von Tobien:

"Herrnhuters not only included into their ranks the most affluent and influential people among rural folks, but also had such high authority in the general opinion of the people that nobody dared to act openly against the Brethren community. The majority of those who did not belong to Herrnhuters considered this formation as a higher untouchable community and considered their views as more or less authoritative also for themselves. The peasants with higher status: the community judges, the elementary teachers, the supervisors and other officials employed as the landlords' estates – belonged to Herrnhuters as a rule and filled higher positions in the society" (Tobien 1930: 134–135).

Because Herrnhuters enjoyed the reputation of being "reliable people", they were preferred by German landlords when hiring managers of estates and appointing officials of local rural administration. This was an advantage that could be used by those in its possession during the time of the agrarian reform ("land-surveyor time") in the middle of the 19th century. During this time, the stratum of capitalist agrarian entrepreneurs ("gray barons") emerged out of the local rural population. One can hypothesize that the percentage of the descendants from Herrnhuters in modern professions (including urban professionals) exceeded their percentage in the total population, as these professions became accessible also for ungermanized Estonians and Latvians in the second half of the 19th century.

However, this was already the time when the Herrnhuter movement was on the decline. On the one hand, the hostility of the Lutheran church authority

against Herrnhuters sharply increased from the 1840s. On the other, it was under the pressure of new secular intellectual currents. "Around the year 1865, a new epoch began. <...> Material interests became stronger, and at the same time the numbers of apostates from the Herrnhuters increased. National associations flourished, and the development of both nation's (Estonian and Latvian. – Z. N.) coming of age, began to develop, pushing aside older church social activities" (Tobien 1930: 139).

The traditions of self-organisation and the skills of voluntaristic community building that were formed during the age of Pietism (approximately 1730–1840), was a lasting cultural asset that was applied by Estonians and Latvians for the solution of different problems related to the production of public goods at the local and national level long after the end of the Pietist age. Substantially, these problems had nothing in common with the questions that mattered to Herrnhuters. For example, Latvian workers were famous in all of tsarist Russia for their skills in trade unionizing and political organisation. On the eve of World War I, the Latvian Social Democratic Party enlisted more members than the entire Russian social democracy, including both the "Bolshevik" and the "Menshevik" wings. The abundance of voluntary associations of all kinds, considered by many researchers as the embodiment of "civil society", was the characteristic feature of public life in Latvia and especially of Estonia in the interwar time (1918–1940), distinguishing it from that of Lithuania which was more authoritarian in its shape and outlook. These differences survive into contemporary times. They are similar to those that were described by Robert Putnam in his classical comparison of the civic culture of Northern and Southern Italy (see Putnam 1993).

Beginning with the 17th century, religious disciplinization of peasant masses took place in Lithuania too (see Bumblauskas 2005: 277–429; Raila 2001), with Catholic counter-reformers as its main agents. However, the Baroque period that lasted in Lithuania until the end of the 18th century left in Lithuanian folk culture and mentality a markedly different legacy, in comparison with the Pietist age in Latvia and Estonia. Since this time, Lithuania has inherited a lot of monasteries, pompous church buildings, the sentimental cult of the Blessed Virgin Mary, and a lot of shrines serving up to now numerous religious feasts. The taste for ceremonies and rituals, pomp, ornament and tasteless luxury can be considered inherited from the time of the Catholic counter-reformation too. All these belong to the distinctive features of Lithuanian culture and public life, distinguishing it from the more no-nonsense and sober Latvian and Estonian style. The imaginary of Lithuanian culture derives from the creative will that was formed during the Baroque time. In contrast, the phenomena of Latvian and especially those of Estonian culture are derivative from the spirit of Lutheran Pietism that shaped national character during the 18th–19th centuries.

However, it is important to take note of the fact that the Pietist cultural legacy was transformed in Estonia and Latvia in a much deeper way, because modernization started in the Baltic North much earlier than in relatively stagnant Lithuania, and obliterated the religious origins of this legacy. Because of the late onset of urbanization (only during the Soviet era) the absolute majority of ethnic Lithuanians were a rustic people during the first half of 20th century, preserving characteristic features of a traditionalistic mentality going back to the Baroque time and rural way of life. In Estonia, ethnic Estonians were the majority of the urban population already by the beginning of the 20th century, and in Riga the part of Latvians in the total population increased up to 42% in 1897 (Mattusch 1996: 122, 127).

Although ethnic division of labour was a characteristic feature of the social structure in Estonia and Latvia too, it was much less marked than in Lithuania, where town handicraft, industry and trade were the traditional employment of the Jewish minority, who were the majority in the urban population. Ethnic Lithuanian entrepreneurs infiltrated these areas of occupation only during the interwar time. However, even at this time they managed to stand against the competition of the more experienced and skilled Jewish entrepreneurs only due to the development of the broad movement of cooperative societies, strongly supported by the Lithuanian state. The support of this movement in combination with “positive discrimination” in favour of the ethnically Lithuanian entrepreneurs was one of the cornerstones of the economic policy of the independent Lithuanian state in 1918–1940. This policy was inspired by the economic success of the farmer cooperatives movement in Denmark during the second half of the 19th century.¹⁶

The Jewish population in Lithuania was almost completely exterminated during World War II. By the end of the Soviet era, the majority of the Lithuanian urban population consisted of people of rural origin who resembled by their mentality the migrants in the industrial centres of Northern Italy from Sicily and Calabria more than urban and modern Estonians and Latvians. Therefore, at the beginning of market transformation Lithuania had fewer human resources for the building of the rational entrepreneurial capitalism in comparison with Latvia and Estonia. In these countries, the populations included relatively more persons socialized in the social microenvironments that preserved the experiences and memories of life under the conditions of a market society.

When foreign observers compare Lithuanians with their Northern neighbours, they describe them as “Baltic Italians”. In my opinion, another comparison is more appropriate. This is the comparison of Baltic countries with different regions of Italy in reference to their cultural traditions and conditions for the formation of

¹⁶ On the cooperative movement in Lithuania, see Simutis 1942: 32–42. On the exemplary status of Denmark’s agrarian development for the searches of the paths of economic modernization in Eastern Europe, see Kingston-Mann 1999.

the social capital created by these traditions. In Italy, one finds a sharp difference between the industrial, urban, civic and universalist North (primarily, Lombardy), and the agrarian, rural, “familist”, and particularist South (principally, Sicily and Calabria), notorious for corruption and organized crime. One can describe Estonians as Baltic Lombardians, and Lithuanians as Baltic Sicilians or Calabrians. Tellingly, from all three Baltic countries, only Lithuania has a “national” mafia with an established reputation in international criminal spheres, and harbours the regional Baltic centre of smuggling trade – the marketplace Gariūnai near Vilnius.

5.5. Latvia and Other Difficulties of the Culturalist Explanation of the Estonia’s Success: Towards Resolution

The culturalist explanation confronts difficulties that are similar to those of the political-economic explanation. To remind the reader, in Latvia identity politics with focus on the Russian threat was of no less importance than in Estonia, there was no influential ex-communist party, and Latvia, like Estonia, was governed by right or right-of-centre coalition governments. The *de facto* lustration and personal change in the state administration paved the way to ethnically Latvian officials whose youth, courage and the low level of administrative competence was not below that of their Estonian counterparts. However, its economic achievements were even worse than in Lithuania. The difficulty for the culturalist explanation is that Latvia, like Estonia, has Protestant cultural heritage.

Nevertheless, I would like to assert that the version of culturalist explanation presented in this book has an important advantage over its primary (that of Matusch) version, because it can cope more successfully with this difficulty. My point is that it is not a Protestant (Lutheran) cultural legacy, but rather a Pietist Protestant legacy that matters. The Pietist movement penetrated only one third of the territory of contemporary Latvia – that which had belonged to tsarist Russia since the early 18th century (Vidzeme). The Pietist movement took roots neither in Catholic Latgale nor in Kurzeme (Kurland), which until the end of the 18th century was a semi-independent state (duchy), formally under the suzerainty of the Polish-Lithuanian state. Kurland was Lutheran, but the authorities of the Lutheran church in Kurland effectively suppressed all Herrnhuters’ missionary activities from the very beginning.

Further testing of the Pietist Protestantism thesis should take up the following research question: were Latvian Pietists and persons with Pietist roots more broadly represented among entrepreneurs and in modern professions, in comparison with those ethnic Latvians who were orthodox Lutherans, Orthodox or Catholics? Were Latvians from Kurzeme (with no Pietist influence) more or less broadly represented in the emerging Latvian elite than those from Vidzeme? These are questions for “doable” research that can help decide the fate of my version of a culturalist explanation.

At this point, I would like to provide some elaborations on social micromechanisms which made differences in the cultural heritage of the Baltic countries causally significant in the situation of the reemerging market economy. Firstly, one can hypothesize that Estonia inherited from its history informal institutions that were more compatible with the set of formal market institutions known as the “Washington Consensus” which were introduced from above during market reforms. *Ceteris paribus*, such compatibility lowers the level of transaction costs (cp. Blümle et al. 2004; Klump 1996; North 1990; et al.).

Secondly, one can guess that the cultural heritage of Estonia enhanced the readiness to learn how to act under conditions of the market economy in the making, and increased the speed of this learning. The impact of life experiences because of changed conditions in behaviour is mediated by their interpretation. This interpretation proceeds on the framework of certain available shared mental models (see Denzau and North 1994) or worldviews. They provide for the actors concepts and causal hypotheses how to interpret new negative experiences (Who is guilty? What can and has to be done to improve a situation?). These models are products of the preceding process of individual and collective learning, maybe even of evolutionary selection. Intriguingly, the question about the comparative significance of the individual, collective learning and that of evolutionary selection has no satisfactory solution even in the theory (cp. Camerer 1997; Mailath 1998).

I would like to maintain that mechanisms of individual and collective learning are more important than mechanisms of evolutionary selection.¹⁷ This assumption implies that cultural traditions are not insurmountable obstacles for capitalist development. As being capable of learning from their experiences, human actors adapt both their “cold” (cognitive) and “hot” (normative) expectations to changes in the environment of action. However, the culture-specific stock of available models is critically important for the speed of adaptation of these expectations to the new reality. The crux of the matter is that the change of the expectations by the majority of the population is tantamount to the change of social reality itself.

Depending on the character of the prevailing models, the decline of individual welfare can be considered either as the personal problem of an actor, arising due to insufficient effort, faults in character, lack of talent, or it can be attributed to “government” or “system”. The data of sociological surveys can be interpreted as evidence for the dominance in the Estonian culture of mental models that predisposed its participants toward the interpretation of the negative experiences in the first sense. This facilitated and speeded up learning and adaptation to new conditions. The slower (by 1–2 years) progress of economic reforms and later

¹⁷ However, the question of what role is played in this process by rational learning in comparison with other forms of learning remains for further discussion. See Güth and Kliemt 2004; Vanberg 2002.

the beginning of the economic recovery in Lithuania can be explained by the slower speed of learning how to act in the market environment, conditioned by the mental models for action inherited from the traditional rural Catholic social environment.

There may have been even the greater delay for such learning in Latvia. In no other former republic of the Soviet Union had the ethnic composition of the population changed more significantly than in Latvia during the Soviet era. Because of intensive immigration, contemporary Latvia is a bi-cultural country with an ethnically non-Latvian population that is economically dominant. Because of intensive immigration, during the Soviet time a unique situation emerged in Latvia, with the ethnic division of labour more resembling that of the Soviet republics of Central Asia than other Baltic countries. "A comparison of educational levels indicates a significant gap between Latvians and other groups. Per thousand people over age 15, in 1989 there were 96 Latvians with a completed higher education, but 407 Jews, 163 Ukrainians and 143 Russians" (Dreifelds 1996: 159). Immigrants were a majority not only among the industrial workers of low and middle qualifications, but also in the ranks of engineers, technicians, highly skilled workers and representatives of other modern professions.

These tendencies in the ethnic division of labour intensified even more after 1990, as exclusionary citizenship laws diminished opportunities for employment in the public sector for the Russian speaking population. As implied in such cases by the so-called "Petty's law" (discussed also by Max Weber 1958 (1905): 39–40, 189), the representatives of the Russian speaking population with entrepreneurial dispositions, aspiring for vertical mobility, directed their energies towards self-assertion in the private sector. According to Latvian data, up to 80% of Latvian entrepreneurs belonged to "non-titular nationalities" by the middle of the 1990s (Bleiere et al. 2005: 477). These entrepreneurs used the opportunities that Latvia enjoyed as a transit country and provider of off-shore services for Russian businessmen.

Of course, the prevalence of the Russian speaking population among the new business elite does not mean that all Russian speakers became businessmen or were entrepreneurial. Quite oppositely, its significant part was carrier of the continuational, Soviet-nostalgic orientation. In Latvia it was probably second in strength after restitutional orientation. This orientation was dominant among the ethnically Latvian population. Differently, in Estonia mimetic orientation was next after restitutional according its strength.¹⁸

¹⁸ In this respect, Latvia did not differ much from Lithuania, where continuational orientation was also second by strength after the restitutional one. However, in Lithuania its carrier was not immigrant Russian speakers, but significant parts of the ethnically Lithuanian population and the indigenous Polish minority. See 2.1 and 4.2.

Summarily, one can neutralize the point that the mainly Protestant Latvian case refutes the argument about the causal relevance of the different cultural endowments with the following observation: because of demographic dislocations, the economic culture of the early post-Soviet Latvia was not Latvian, but of the kind characteristic for Russia. However, then I owe an answer to the following question: why and how could the predominance of the Russian minority in the business elite complicate the Latvian situation? Why the participation in the business networks centred around rising oligarchs in Moscow or St. Petersburg was a liability rather than asset for the rapid recovery of the Latvian economy?

As already alluded to, the most important activity sphere of the Russian speaking economic elite in Latvia was financial intermediation services for the businessmen from Russia, sometimes involving what is classified as “money laundering”. This contributed to the rise in Latvia of the overbloomed banking sector in the early 1990s that suffered repeated crises caused by the failures of the biggest Latvian banks, mainly on the Russian market. During the banking crisis in 1995 about 40% of bank assets were lost (Hallagan 1997: 74). These banking crises damaged Latvia’s real economy more than those of its Baltic neighbours, slowing down its overall economic recovery. History was repeated in 2008, as the Latvian government’s costly engagement to save the collapsing Parex bank, which was part of the “Russian” sector in Latvia’s business, made the general economic crisis most severe among Baltic countries.

The Estonian strategy to exploit its more liberal economic environment to become a regional financial and other services centre for Nordic CME countries (a kind of Northern Hong Kong or Luxembourg) seems to have paid off more than Latvia’s attempt to establish itself as a “near Switzerland” for Russia and other former Soviet Union republics. Instead, capitalism in Latvia took many features that are usually attributed to “wild” Russian capitalism. According to internationally comparative research, corruption in Latvia is even worse than in Lithuania.¹⁹

However, why was the Russian minority in Estonia not able to raise its position in the economy comparable to those of its counterpart in Latvia? In part, one can explain this by the fewer numbers of the Russian speaking population and its concentration in the region (North-East) which did not become the centre of the country’s economic life. But most likely the key cause was a privatization policy which gave preferential treatment to persons with citizenship rights, who were mainly ethnic Estonians. Therefore, “the Estonians took over by far the greater part of management positions in the former state enterprises when privatization was implemented. True, the Estonians were already in possession beforehand of a

¹⁹ A reminder that according to Corruption Perception Index data for 2010, Estonia was 26th, Lithuania – 46th, Latvia – 59th, Russia 154th place in the list including 178 countries. See <http://www.transparency.org/policy_research/surveys_indices/cpi> 19.03.2011.

higher share of management positions than the non-Estonians, but the Estonians increased their share as a result of privatization, and the non-Estonians almost completely disappeared from management positions in all the counties of Estonia” (Andersen 2005: 409).²⁰

The political elite in Latvia attempted to use privatization for the consolidation of economic power positions of its citizens (mainly ethnic Latvians) too. However, because of the domination of the Russian speaking population in industry (including management positions) and the advantages that were secured to the Russian (and Russian speaking Jewish) entrepreneurs by participation in international business networks with the dominant role of Russian capital, the attempt to find a strategy of privatization that would achieve both objectives – to effectively reshape the institutional environment of economic activities in the direction of the working market economy (REC), and to change the ratio of economic power in favour of the ethnically Latvian population – turned out to be the quadrature of the circle. “In this respect, some Latvian politicians have sought to prevent Russian managers from controlling industry. The delays and confusion that these conflicts have brought into the legislation process, however, have created a legal vacuum which resulted in comprehensive and uncontrolled spontaneous privatizations” (Nørgaard et al. 1996: 147; see also Nissinen 1999: 216–244). The fears and complaints of radical nationalists that privatization would end with Russians hijacking Latvia’s economy caused vacillations and zigzags in the economic policy of the rightist government that impeded and slowed down the recovery of Latvia’s economy.

Political-economic and culturalist explanations of the reemergence of the North-South gap are not all of the plausible explanatory hypotheses for my problem. First of all, one should give serious consideration to the hypothesis that explains Estonia’s early success due to its geographical proximity to Finland. However, upon pondering how this proximity could be important, one comes to conclusions that provide supplementary evidence for a cultural explanation rather than undermine it.

As stated above, one can doubt whether a purely economic impact (due to trade) of this proximity could be very important, because the economy of Finland was in a deep recession in the early 1990s, suffering from the dissolution of the Soviet economic world not much less than former socialist countries. What is more relevant is that Estonians understand the Finnish language, and during the Soviet period the residents of Northern Estonia could watch Finnish television (very boring, by the way). Therefore, the population of Estonia was not isolated from Western influence to the degree that was characteristic of other Baltic

²⁰ On privatization in Estonia, see also Terk 2000.

countries. However, this influence was effective only insofar as and because it enhanced the vitality of Estonia's own cultural traditions and slowed down its erosion by the daily experience of the life under state socialism. Otherwise, one could be puzzled to explain why the massive exposition of the Russian population to Western cultural influence in the late 1980s and the early 1990s did not lead to revolutionary changes in Russian economic culture.

Another very plausible explanation for Estonia's early recovery refers to the foreign investors who came to the country at the very onset of privatization in 1992–1993. As a matter of fact, the volume of foreign direct investments (FDI) in Estonia in the early 1990s was significantly larger than in Latvia and Lithuania: in 1993–1995 in Estonia it was US\$ 579 million, in Latvia US\$ 439 million and in Lithuania only US\$ 134 million. If one takes FDI per capita, the difference is even more impressive: during these three years, Estonia accumulated 366, Latvia – 143, and Lithuania – only 42 US\$ (Aslund 2002: 435–436).

However, how can one explain investors' (first of all, those from Nordic and Anglo-Saxon countries) preference for Estonia? Maybe the Estonian government simply invested more into "public relations" work to create a positive international image of the country, or employed specialists that were more skilled? Some facts given by Mart Laar in his memoirs provide some evidence in favour of this guess. "One of the most significant projects was a campaign in the international media, the cornerstone of which was the purchase of a supplement to *Newsweek* magazine. Money from a World Bank loan was used for this purpose, despite not having been intended for such a purpose. It was not merely the supplement itself which was important, but also the contract which specified that *Newsweek* would publish further articles about Estonia. It was precisely these follow-up articles which had the greatest effect" (Laar 2002: 248).

However, the success of public relations work depends not only on how much you invest, but also whether you manage to find and touch a chord in the souls of those whom you address. To be found and touched, this chord must already exist. According to recent research, FDI is not just a product of an investor's calculation of risk and return (see Bandelj 2008: 131–167). Instead, decisions to invest are influenced by business and personal networks in which investors and hosts are participating and by culturally embedded understandings about the most appropriate partners. Because of ethnolinguistic affinities and perceived cultural proximity Estonian businessmen were the natural first preference partners for their colleagues in Finland and Scandinavian states. The managers of big companies, who made a general decision to invest somewhere in "the Baltics", but perceived all three Baltic countries as one unit at first, could be swayed in Estonia's favour by some small details signaling that Estonians are "closer Others" than "other Others" in the Baltics.

Even the seemingly puny fact that the ring of Estonian surnames (e.g. Adamson, Kask, Lepik, Viikberg, Pettai, Kasekamp, Vetik) are easier to pronounce (and remember) for English speakers than that of Latvian (not to mention Lithuanian ones, for example Abromavičiūtė, Jasiukaitytė, Morkevičius, Poviliūnas) could be important for this perception of cultural proximity. Initial investments fulfilled the advertising image of the “shining star from the Baltics” with real substance and made work the mechanism of self-confirming expectations: Estonia got more investments because it looked more “Western”, more attractive and better than other Baltic countries; and as it attracted more and more investments, its outlook became even more attractive.

So although Finland’s and Sweden’s economies were in deep recession in the early 1990s, the “Nordic factor” worked to Estonia’s advantage in the inter-Baltic competition for FDI and other favours of cooperation with advanced countries. After accession to the EU, the Finland factor helped to mitigate the mass emigration problem common to all Baltic States, because many Estonians could commute to work in neighbouring Finland, instead of permanently settling down in Ireland or the U.K. that are the main immigration countries for Latvians and Lithuanians.

There is no reason to assume that Estonia’s superior economic performance can be explained by the single causal condition. My search for the general patterns of post-communist transformation was guided by the assumption that its outcomes were conditional on the multiple conjunctural causes (see 1.3). All three Baltic states are success cases of the post-communist transformation in the sense that all of them entered the second decade of post-communist transformation as REC and liberal democracy states. However, this was the outcome of different conjunctures of causal conditions: dominant restitutive orientation and shock therapy together with democratic revolution in Latvia and Estonia; dominant restitutive orientation and shock therapy together with the pact between ex-communist and anti-communist elites in Lithuania.

As we want now to explain the differences of the outcomes among these success cases themselves, at the outset the differences of degree in these three main causal conditions should be considered. In all three Baltic States, restitutive orientation dominated. But was it equally strong in all of them? In all of them, shock therapy style economic reforms were implemented. But were they of the same speed, consistency, and did they display the same sequence? I would like to insist that the differences in the mode of the Baltic countries economic exit from communism were differences of degree, although some authors maintain that they were differences in kind: Lithuania allegedly implemented gradual market reforms, while Estonia is a shock therapy case (see 5.1). However, if one accepts this argument, then Estonia together with East Germany risk remaining the only

shock therapy cases. If only speed matters, then Latvia and Lithuania were more radical than Poland, where large scale privatization was protracted throughout the first post-communist decade. However, only a few observers doubt that Poland implemented shock therapy (see 2.2).

As a matter of fact, the collapse of the Soviet economy in late 1991 made gradual market reforms an almost impossible choice, demanding swift emergency action. The real choice was between radical (shock therapy), partial, and minimal market reforms. In all three Baltic states, shock therapy style reforms was implemented. What really may have mattered, was their sequence. While market reformers in Lithuania were busy launching large scale privatization as early as possible, in Estonia they were more worried about stabilization. The breakthrough was achieved in June 1992, when Estonia left the rouble zone. Lithuania followed the lead only after a year, when the national currency the litas was introduced in June 1993. However, the first successes came only in the next year, when the Currency Board with the litas pegged to the U.S. dollar was introduced. At this time the bulk of state-owned enterprises (with the exception of a few “strategic enterprises”) were already privatized.

The mass privatization under hyperinflation provided Lithuanian shock therapy with a flavour of partial reforms, the adjective “partial” meaning both their incompleteness and non-impartiality of their distributive consequences.²¹ The postponement of stabilization and incomplete external liberalization provided opportunities for the early market reform winners to seek rents by price arbitrage, receiving credits (de facto free grants) from the state banks, and buying state enterprises for asset stripping. In fact, an opportunity window for such “uncreatively destructive” and parasitic activities was open in Lithuania much longer than in Estonia. This may be important for the explanation of why post-transformation recession was deeper in Lithuania than in Estonia.

However, it is difficult to believe that everything done by Estonian reformers was the embodiment of economic wisdom. Estonia’s choice of large scale privatization method was better considered. In Lithuania (following the Czech example) the primary method was voucher privatization favouring the insiders. In Estonia (following the German example) a privatization agency was established with the duty of selling state enterprises through direct sales or investment tenders. This method of privatization de facto favoured foreign investors who could pay real money or provide the investments.²²

²¹ See 1.3 and 2.2.

²² Of course, there was no discrimination against indigenous buyers in the privatization laws – they just had less money (I owe the clarification of this point to Erik Terk via personal communication).

The Estonian method was more successful. The Lithuanian voucher privatization did not provide for enterprises any new investments and technologies. In Estonia, most foreign investors brought new know-how and access to new markets. On the other hand, Estonia was the only post-communist country that abolished all subsidies for agriculture, exposing its farmers (who were *kolkhoz* workers just a year or so before) to no chance of winning competitions by the heavily subsidized production from EU countries. I did not find any economic analysts who would show how this helped to enhance the international competitiveness of Estonia's agriculture or make the life in its countryside somehow better. This was an ideologically motivated (by "market Bolshevism") decision of the same type the economically irrational decisions of real Bolsheviks were.

So I do not believe that Estonia's superior economic performance can be attributed only to more consistent implementation of shock therapy or more change in the personnel of state administration because of democratic revolution. These differences were important, but together with other background conditions: the "Nordic factor" and cultural endowments going back to the Pietist revival of the Lutheran Protestantism in the 18th–19th centuries. They seem to have provided Estonia with advantages that would help overtake Lithuania even in the case if not such an extreme version of radical market reforms was implemented by the not so young government with less courage or with a higher level of administrative competence.

As a matter of principle, my three major conditions (orientation, economic and political modes of the exit from communism) are not sufficient to explain the differences in economic performance between successful cases of post-communist transformation. More causal conditions should be taken into account for this goal. This has a price, because with the increasing number of variables and decreasing number of cases under comparison the conclusions become more tentative. We will probably never know how much each of them did matter for the Baltic States. The causal effects of variables can be measured and compared under controlled experiment or doing large N statistical analysis. This does not work if we are interested in the causal decomposition of the differences in values of dependent variable for only two or three cases in the non-experimental setting.

On the methodological level, an increase in the number of putative causal conditions does not involve any change in the assumption of how they are mutually related: as insufficient but non-redundant parts of unnecessary but sufficient conditions. This also relates to the presumable economic relevance of the Catholic versus Protestant cultural tradition. As a matter of principle, no specific cultural tradition is a necessary precondition or insurmountable obstacle for the spread of rational entrepreneurial capitalism (REC) once it has emerged somewhere (see Norkus 2001: 378–384). If my assumptions about the micromechanisms how

Catholic cultural legacy could influence the economic behaviour of Lithuanians hold, then Catholicism did matter only for the speed of how new formal market institutions shaped the economic behaviour.

There are no sufficient grounds for the argument that cultural legacy may put a country on the development path that dooms it to remain for all future behind the countries endowed with different cultural traditions. This is the lesson taught by Catholic Bavaria and Ireland, but also by post-communist Slovenia, which became one of the post-communist top performers. Catholic cultural legacy may be less favourable for REC to catch on, but it can be overridden by other favourable conditions. However, the fact that Slovenia is Catholic while Estonia is Protestant may matter for the explanation as to why they did enter different paths of the successful post-communist transformation. But this is not the sole reason why Slovenia is selected for the comparison in depth to illuminate the Lithuanian case.

CHAPTER 6

Between Estonia and Slovenia: Post-Communist Capitalism in Lithuania and Its Prospects

The small population of cases (which only included Estonia and Latvia) that was used to illuminate the Lithuanian case by the comparisons in depth in the previous chapter, is expanded in the present chapter to include Slovenia. This expansion takes as its guide the literature produced by the researchers who are interested in the applicability of Hall and Soskice's VoC theory to post-communist capitalism. In this literature, Slovenia is considered as the most clear-cut case of post-communist CME, while Estonia is reputed as an LME case. The first section expands the observations of this literature by describing relevant institutions of Latvia and Lithuania (in economic terms) in the framework of VoC theory. However, while classification of Slovenia as a CME state is endorsed, the classification of the Baltic States (including Estonia) as LME cases is rejected. Instead, in the second section they are described as Weberian-Friedmanian subtype of rational entrepreneurial dependent market economy (DME), characteristic for parts of the world-capitalist system semi-core and semi-periphery. The third section tackles the question of whether Lithuania could repeat the success of Slovenia in breaking into the club of technological frontier countries, instead of following in the footsteps of Estonia to join the semi-periphery. While the question about the possibility of a "Baltic Slovenia" is answered in the negative, however, Slovenia becoming an "Adriatic Lithuania" is considered a real possibility. This is the main argument in the concluding fourth section, which also discusses the challenges and prospects of Weberian-Friedmanian capitalist development in the Baltic States.

6.1. Baltic States and Slovenia as Extremities of Post-Communist Rational Entrepreneurial Capitalism

In the wake of the first decade of post-communist transformation Estonia and Slovenia fell into the focus of the researchers who are concerned with the matter of whether the theory of varieties of capitalism (VoC) advanced by Hall and Soskice can be applied to post-communist countries, and to what extent (see Bu-

chen 2007; Feldmann 2006). In this regard, the most interesting thing is that both countries are seen as the “overachievers” in post-communist transformation, even though their ways of transformation and the configurations of economic institutions they have created may greatly differ.

Estonia earned its “overachiever” reputation as a country that was the most consistent of all the post-communist countries in pursuing a neoliberal policy of radical economic reforms also known as “shock therapy” and managed to attain positive macroeconomic results sooner than other post-Soviet republics, the economic recession in the country lasting shorter and being less deep as compared to similar states. In contrast, Slovenia followed quite an opposite strategy to move out of communism. It liquidated the communist system through gradual or incremental reforms that were considered bound to fail by the neoliberal experts from the International Monetary Fund and the World Bank in the early 1990s. However, with the first decade of post-communist transformation coming to its end, the macroeconomic indicators in this country were among the best in any post-communist country, even better than those in Estonia (see table 5.1 and compare fig. 5.1 and fig. 6.1).

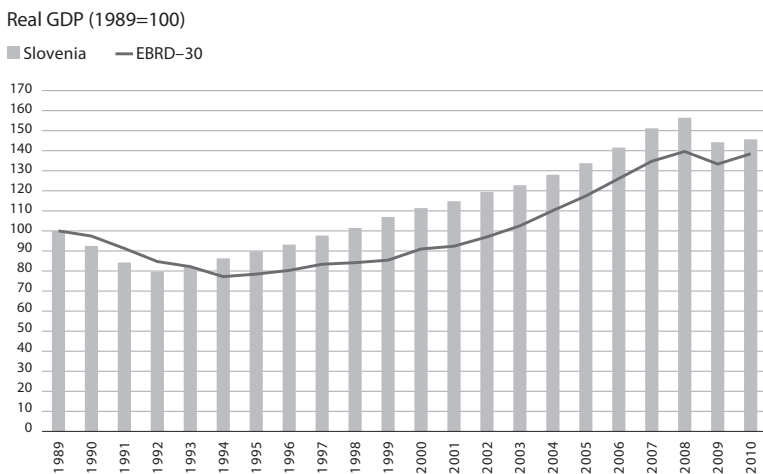


Figure 6.1. GDP of Slovenia in 1989–2010. Reproduced with the kind permission of the European Bank for Reconstruction and Development from *EBRD. Transition Report 2010*. Paris, 2010, 145.

Knowing that the key priority of neoliberal economic policies is to achieve stability of prices (minimize the inflation rate) and the socially oriented policy of a state can sometimes boost the inflation rate, it would appear a paradox that it was the neo-corporatist Slovenia rather than the neoliberal Estonia who was the only post-communist state to satisfy the so-called Maastricht criteria and the first one (since January 1st, 2007) to join the eurozone.

Leaving out of consideration China and Vietnam where the transition from the planned administrative economy system to capitalism progressed at no social cost, Slovenia is the post-communist country where this kind of transformation was the least painful. Social cohesion remained intact as evidenced by the value of the Gini coefficient, which indicates the inequality of the income distribution. For Slovenia the value of this coefficient is the lowest as compared with other post-communist countries who are now members of the EU. In 2009, the value of the coefficient for this country was 22.7, the lowest in the European Union.¹ Whereas Latvia and Lithuania are presently EU Member States with the biggest inequality of income, their Gini coefficient values stood at 37.4 and 35.5, respectively. Estonia (31.4) ranks 5th among post-communist member states below Latvia, Lithuania, Romania (34.9) and Bulgaria (33.4). However, its Gini coefficient exceeds only insignificantly the EU-27 average of 30.4.

From the viewpoint of typological analysis of post-communist capitalism, the differences between the political economic institutions in Estonia and Slovenia are the most interesting. As I have already mentioned (see 3.2), in this regard Estonia and Slovenia are considered as two opposites in terms of Hall and Soskice's theory of VoC. Within the framework of this comparison, the difference between Estonia, on one part, and Latvia and Lithuania, on another, seem meagre compared to the differences between the capitalist political-economic systems of the three Baltic States and Slovenia. This type of comparison reveals the fact that the capitalism in the Baltic States is a distinctive variety of post-communist REC that is quite opposite to the capitalism in Slovenia. The capitalism of the Baltic countries can be attributed to the type of REC, which can be found also in Central European countries. This type was already addressed in section 3.2, adopting its name (dependent market economy; DME) from Andreas Nölke and Arjan Vliegthart (2009). At the same time, there are certain qualities that differentiate the economic systems of the Baltic countries from those of the Visegrád states. Spotlighting such qualities is one of the key tasks of this chapter. These qualities form the basis for classifying the neoliberal Baltic capitalism as a separate sub-type of DME.

Slovenia is the only post-communist country with all the typical CME features in every institutional sphere of the economic system: corporate finance and governance, industrial relations, skills formation (education and training), relations between firms and employees, and relations between the firms themselves² (see table 3.1). What is more important, these features supplement one another according to the logic of complementarity of institutions in different spheres (see

¹ See <<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tessi190>> 30.03.2011.

² See 3.2.

3.1). In fact, it can be said about Slovenia that it is the only case of CME or social capitalism in the post-communist world.

Slovenia cannot be classified as a DME state, as the country's industry and financial sector are not dominated by foreign capital, at least not yet. Because of the privatization model the country has adopted (I will discuss this shortly), which favours insiders, most Slovenian firms still have internal owners. At the same time, the country was able to join the international labour division system as an exporter of technologically complex production. "Relations with Western trading partners often developed into licensing and cooperation agreements that have enabled many Slovenian companies to obtain modern technology. Slovenian companies penetrated foreign markets under their own trademarks by buying basic technology licenses to develop their own brand name products" (Lahovnik 2010: 121). Such Slovenian firms with their own brands include notable names as *Gorenje* (one of the eight largest manufacturers of home appliances in Europe), *Krka* (pharmaceuticals), *Tomos* (motorcycles, mopeds, outboard motors). This makes Slovenia a unique post-communist country because even when it comes to the Czech Republic, which has inherited famous brands (like *Škoda*) from the interwar era, the local firms manufacturing products with such brand names are presently subsidiaries of transnational companies who are the real developers of these products. "Furthermore, the most promising Slovenian clusters (machine tool manufacturing and the automotive industry) show that Slovenia has highly developed technological capabilities and great potential to become a partner not only for key product customers but also to those developing next generation technologies" (Dermastia 2005: 73).

So, Slovenian firms have been able to prove their capability of autonomously organizing and managing the production chains of sophisticated products and to maintain their competitiveness by incremental innovations on the technological frontier. These are characteristics of an economy that is a part of the core of the world capitalist system. That is why Slovenia can be considered a CME country, in the sense in which this ideal type is defined in the theory of VoC by Hall and Soskice. In any case, among those post-communist economies that achieved accession to the EU, the Slovenian economy is the most developed, with GDP per capita in purchasing power standards (PPS) 88% of average GDP in the European Union in 2009.³

As this indicator is still below the EU average, classifying Slovenia as a world capitalism system core country may appear dubious. Yet this indicator cannot be seen as absolute because the per capita GDP in some of the countries with a

³ For Estonia, this indicator was 64%, Lithuania 55%, and Latvia 52%. See <http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-15122010-BP/EN/2-15122010-BP-EN.PDF> 30.03.2011.

structurally peripheral economy (e.g. oil exporting countries) can be relatively big. If one were to look for a more solid foundation for attributing Slovenia to the core countries, it can be found in the classification of countries by the World Economic Forum (WEF) that this organisation uses to produce its World Competitiveness Reports, so prestigious among the neoliberal economic analysts. This classification takes into account both GDP per capita and the exports structure of a state. Therefore, it distinguishes countries with economies that are (1) factor driven, (2) efficiency driven, and (3) innovation driven (GDP per capita >\$17,000) as well as two transitional types (between (1) and (2) and between (2) and (3)). In 2010 Slovenia was the only post-communist country classified by WEF as an innovation-driven state, and so considered as a world capital system core country (see World Economic Forum 2011: 11).⁴

Capitalism in Estonia and other Baltic countries is different both from the Slovenian CME, and the Central European DME by many features that make it affine to LME. This, however, is not a sufficient reason to classify the capitalism of the Baltic States as LME. The ideal type of LME can be applied, without reservations, to the technologically advanced countries, world leaders in those high-tech industries where competitiveness is conditional on radical innovation. Just like post-communist Central Europe, the Baltic States are not on the technological frontier and so do not belong to the core of the world economy. Still, many traits of LME transpire in the institutional organisation of their economies.

We come across most of the LME features in Baltic capitalism while dealing with the sphere of industrial relations. "The Baltic countries with their largely decentralised industrial relations frameworks are more similar to the Anglo-American countries than to Continental European or Northern European countries. <...> There is currently low average trade union membership, the main bargaining level is at the company level, and there is little or no coordination or centralisation" (Kallaste and Woolfson 2009: 97). With the collapse of communism, the number of workers who are members of trade unions has diminished greatly across Eastern and Central European countries. However, while the number of trade union members in Estonia dropped from 93% in 1990 to 7.6% in 2009, in Slovenia the same figure only declined from 96% in 1989 to 44% in 2009. The share of such workers is still the largest among Central European and Baltic countries in the latter country.

⁴ There are neoliberal economists in Slovenia who idealize Estonia (see 6.4). They like to point out that according to the scores of Global Competitiveness Index Slovenia usually ranks behind Estonia. However, they do not always make clear that the values of this index are calculated in a different way for countries at different levels of development. Because of its classification as an innovation driven country, scoring methodology is more demanding for Slovenia.

In this respect, Lithuania, with only 10% of the total workforce belonging to a trade union (see table 3.1), is nearly as (neo)liberal as Estonia. As evidenced by the data in this table, the percentage (10%) of the workforce employed under employees covered by collective agreements or collective contracts on wage rates in Lithuania was even lower than that in Estonia (25%) in 2009. The low values of these two indicators bring Lithuania and Latvia very close to the ideal of a free labour market void of any trade unions as propagated by neoliberal economists, whereas Slovenia could not be further away from it, with the Visegrád countries in the middle (see table 3.1). It must be added that by covering a relatively small percentage of employees, trade unions in Lithuania are probably the most fragmented in Central European and Baltic countries: because of differences in alignment with political groupings there are three adversary trade union confederations.

Table 6.1. **Collective bargaining coverage and trade union membership in 2009.** Data source: European Industrial Relations Observatory On-line, Country Profiles, <<http://www.eurofound.europa.eu/eiro/>> 30.03.2011.

State	Collective bargaining coverage (% of employees covered by collective agreements)	Trade union density (Union members as percentage of all employees in dependent employment)
Czech Republic	26.5	22
Estonia	25	7.6
Hungary	25.5	16.9
Latvia	<20	~18
Lithuania	10 (estimate)	10 (estimate)
Poland	30 (estimate)	16
Slovakia	~35	~20
Slovenia	96	44

The way Boguslovas Gruževskis and Inga Blažienė put it, “the inadequate social dialogue in Lithuania restricts legal regulation of employment protection. Nearly 40 clauses in the Labour Code contain a line that says ‘to be fixed in collective contracts’. Considering the fact that, by varying estimation, only 10 to 15% of the employed people in the country are covered by collective contracts, it can be said that some of the provisions of the Labour Code are virtually not working” (Gruževskis and Blažienė 2005: 4). Besides, Lithuanian trade unions only work in public sector companies as well as in businesses that have been privatized. Trade union activity is a rare exception in companies that appeared as new formations during the post-communist period.

In 2004, Lithuania adopted the Act of Works Councils. It provides a possibility in the companies that have no trade unions present to establish labour

councils – employee representation bodies tasked with protecting their professional, employment, economic and social rights and representing their interests in dealings with the employer.⁵ Other Central European countries passed similar legislation on the eve of their accession to the EU as well. However, Slovenia is again an exception as it is the only country that has such statutory institutions actually working. Back in 1993, the country took a leaf out of Germany's book and established the practice of employee representation in corporate boards, which actually means that the staff have the right to be involved in the managing of their companies (see Kohl and Platzer 2004: 128). In large enterprises, employees elect anywhere between one-third and one-half of the members of its supervisory council as well as one of the members of its board of directors. No such rights are given to employees either in the Baltic or in the Visegrád countries.

That the Act of Works Councils is not actually working is yet another example of the gap between the law and actual practice, where the weaker the organisation of workers is and the more fragmented the bodies that aim to represent their interests are, the wider this gap is. Comparing the employment protection legislation in the Baltics and the developed LME countries one might be under the impression that employment is even more strongly protected under the neoliberal Baltic capitalism than in the Anglo-Saxon homelands of hire-and-fire style industrial relations (see Eamets and Masso 2005). Employers were particularly loud in complaining about the terms of employment and lay-offs that allegedly favoured the workforce too much on the eve of the crisis that started in 2008, when the economic boom and emigration caused the bargaining power of labour to rise.

It is only in public sector companies and subsidiaries of foreign companies that the practice of employment relations is not very far removed from the law. Small and medium-sized companies of indigenous capital are typically characterized (in Latvia and Lithuania in particular) by an informalization of industrial relations which means abuse of labour by capital, exploiting its lack of organisation. The so-called “envelope” wage payments received by up to 20% of the total workforce are emblematic for this phenomena, meaning “off-book” or “direct” payment transactions of employers with their employees to avoid social insurance contributions. Other forms of informalization in industrial relations include the resorting to various forms of probationary, part-time or fixed-term employment contracts, the requirement to work unpaid overtime, the imposition of “self-employed” contracts to avoid labour regulations and social contributions. This means a dependency relationship and employers arbitrariness as life-world reality in the workplace under neoliberal Baltic capitalism (see Woolfson 2007). “The labour market in Lithuania

⁵ See <http://www3.lrs.lt/pls/inter2/dokpaieska.showdoc_l?p_id=244675> 26.03.2011. See also Kasiliauskas 2008.

is quite flexible, as a result of the flexibility of remuneration and the liberal institutional labour market landscape” (Vetlov and Virbickas 2006: 20).

Another institutional sphere where Baltic capitalism is on a par with that of advanced LME countries is the relations between firms and their employees. Being exploited and unable to influence the managing of their companies, employees in Lithuania and Estonia make little effort to identify themselves with their place of employment. In human resources studies, it is customary to distinguish four segments of employees depending on their loyalty to their job and the company they work for. These are (1) “leaders”, who are involved in and committed to both their job and their company; (2) “careerists” (or “critics”), who are dedicated to their job, but not committed to the employer – they care about their own personal achievements, and therefore are open to “defection” offers from competing companies; (3) “loyalists”, who are not dedicated to or enthusiastic about their job, but are loyal to their company in the long term; (4) “passengers”, who lack dedication to their job and commitment to their employer. According to the findings of a survey that Factum Group conducted in the Czech Republic, Estonia, Lithuania, Hungary, Russia, Slovakia and Ukraine in 2007⁶, “passengers” are most abundant in Lithuania and Estonia, amounting to 61 and 35 per cent, respectively (Zabarauskaitė 2008). The percentage of “leaders” in Lithuania is the lowest: only 19%. The very same survey has shown the workforce in Estonia to be the least satisfied with their jobs.⁷

The differences in the kind of industrial relations in Estonia and Lithuania on one side and in Slovenia on another are well illustrated by an indicator like the average duration of employment at the same company. In 1999, it stood at 6.9 years in Estonia, totalling 12.1 years in Slovenia and 7.6 years in Lithuania (see Cazes and Nesporova 2001: 20; Gruževskis and Blažienė 2005: 71). The same picture is given by a survey carried out by Tine Andersen, Jens Henrik Haahr, Martin Eggert Hansen, and Mikkel Holm-Pedersen, in which employment stability in the EU-27 states in 1995–2006 was measured by average job mobility index (Andersen et al. 2008). It covers (1) occupation-to-occupation mobility (change of occupational status, including change of job profile and job content); (2) job-to-job mobility (change of employer); (3) employment mobility (ease of change between different labour market states – employment, unemployment, and self-employment). Among post-communist REC countries, the Baltic States are characterized by the lowest employment stability, Estonia displaying highest occupation-to-occupation mobility, and Latvia having highest job-to-job mobility.

In the case of Estonia, it is the organisation of both workforce and employers that is weak. This is the sphere of firm-to-firm relations the way it is described in

⁶ The survey in Lithuania was done by the market analysis and research group RAIT.

⁷ See <<http://www.factum-group.com/pr7>> 26.03.2011.

Hall and Soskice's theory of the varieties of capitalism (see 3.1). Of 28,000 active firms, only 1,000 are members of Estonia's Central Organisation of Employers (Feldmann 2006: 839). It is likely that Lithuanian employers are organized better than their Estonian counterparts. However, the former country's employer organisations are just as fragmented as the trade unions. Employer organisation is faced with such obstacles as differences among the interests of foreign companies, large and medium-sized business, wide-spread unfair competition, which manifests itself through the abovementioned phenomena of informalization of industrial relations, and keeping a second set of accounting books. In Slovenia, such problems with employer cooperation are resolved by the obligatory membership of entrepreneurs in the Chamber of Commerce and Industry (*Gospodarska Zbornica Slovenije*), which even has the right of legislative initiative.⁸ Coupled with wide-spread employee trade union membership, such employer organisation enables corporatism as a practice of coordinating economic interests and forming economic policies (Molina and Rhodes 2002; Krupavičius and Lukošaitis 2004: 178–212).

The differences in the degree of organisation of both employers and employees are disclosed probably the best by the scale of measuring the coordination of wage bargaining proposed by the American sociologist Lane Kenworthy (2001). In this scale, five categories of countries are distinguished: (1) economy-wide bargaining, based on a) enforceable agreements between the central organisations of unions and employers affecting the entire economy or entire private sector, or on b) government imposition of a wage schedule, freeze, or ceiling. (2) Mixed industry and economy-wide bargaining: a) central organisations negotiate non-enforceable central agreements (guidelines) and/or b) key unions and employers associations set pattern for the entire economy. (3) Industry bargaining with no or irregular pattern setting, limited involvement of central organisations and limited freedoms for company bargaining. (4) Mixed industry and firm level bargaining, with weak enforceability of industry agreements. (5) None of the above, fragmented bargaining, mostly at company level. According to the findings of Žilvinas Martinaitis who applied this scale to data from about 34 countries collected by the Amsterdam Institute for Advanced Labour Studies (2011)⁹, only Slovenia and Slovakia display features of the (1) or (2) categories. All three Baltic States together with Poland belong to category (5), while Hungary and Czech Republic represent (2) (see Martinaitis 2010: 100).

At this point it has to be emphasized that Slovenia is one of the relatively few liberal democratic countries of the world in which corporatism is not only an in-

⁸ In 2006, the Law on the Chamber of Commerce and Industry was changed to introduce voluntary membership.

⁹ <<http://www.uva-aiaas.net/208>> 28.03.2011.

formal practice but also an element in the structure of top governmental authorities, which is embedded in the Constitution of the state. The Slovenian parliament consists of two houses. When it comes to electing the 90 representatives to the National Assembly (*Državni Zbor*), a procedure similar to that in effect in Lithuania applies, with some of the members elected in single-mandate constituencies, while others are elected in a multi-mandate constituency under a proportional system. The National Council (*Državni Svet*) has legal powers similar to those of the House of Lords in Great Britain. This is a corporative body comprising 22 representatives of local interests and 18 representatives of functional interests: employers, employees, farmers, small business people, independent professionals, and non-profit-making organisations. The National Council is indirectly elected, with elections held every five years. Unlike the National Assembly, its members have only part-time positions. It has the right of legislation initiative, but no power to make final decisions. Following the adoption of a law by the National Assembly, it may lodge a suspensory veto or require the calling of a legislative referendum (Cerar 2001).

Besides, as of 1994 Slovenia has its Economic and Social Council (*Ekonomsko-Socialni Svet Slovenije*) that negotiates, on the level of individual branches of economy, the terms and conditions of the “social pact”, which is updated annually or bi-annually (see Lukšič 2003: 520). Two national pacts are made, one for the public and one for the private sector. These pacts envisage the minimum salary rates for employees of different specialities and specific positions. Such a practice of coordinating interests can only be viable if there is a high level of organisation among employers and employees and it plays an important role in supporting the macroeconomic balance in the country.

Due to the asymmetry of the power balance in favour of the government and business, trilateral meetings of the government, members of employer associations and trade unions in the Baltic countries are merely publicity stunts on the part of the government that are staged just before announcing some political decisions which have been made before (see Ost 2000). That way, when it comes to both employment relations and systems for the representation of group interests, Lithuania, just like Estonia displays clear traits of LME, while the institutional practices of Slovenia in these areas even excel over the classical examples of the Scandinavian social-democratic and continental European corporatism to a certain degree.

The skills formation system is another institutional sphere, in which we can see a divide among post-communist REC countries, similar to that which divides technologically advanced LME and CME countries.¹⁰ During the communist

¹⁰ To compare the education and welfare systems in the Baltic States and Slovenia, I am using information in country chapters on Estonia (by Ellu Saar and Kristina Lindemann), Latvia (Ilze Trapenciere), Lithuania (Meilute Taljunaite), Slovenia (Angela Ivančič) in Kogan et al. 2008.

period, the education and training systems in Yugoslavia, the Soviet Union and its satellites were very similar and targeted the acquisition of specific skills. A hefty portion of young people were educated at vocational schools. Planned administrative economy was the “economy of deficit”: shops were short on consumer goods and companies did not have enough resources to meet their targets. Workforce was a deficit as well, plus it was quite mobile back then: people would always shift from one job to another in search of a “spare rouble”, but such shifting rarely entailed any changes in profession. A lot of employees would spend all of their lives working at the same place of employment that sought to bind them to itself with various social guarantees, services or otherwise. Higher education was only available to the chosen few, and most of those only in studies to learn the “real” lines of trade.

The system of specific skills formation that the Baltic countries had inherited from communist times disintegrated: the number of vocational schools and their students was in rapid decline, relations between educational establishments and enterprises broke and the number of college students skyrocketed, with the majority of students majoring in social sciences. So, a specific skills formation system was replaced by the general (or transferable) skills formation system. The same thing happened in Poland and Hungary, only to a lesser extent. However, when it comes to the Czech Republic, Slovakia and Slovenia the system of formation of specific skills rather than being dismantled, was reformed and adapted to the needs of the market economy. According to the data provided by the European Centre for the Development of Vocational Training (Cedefop), these countries have over 60% of young people learning at secondary schools which provide vocationally oriented training. In the meantime, the share of such students in the Baltic States is merely 30% or so.¹¹ To reform its skills formation system, Slovenia relied on the experience with the German system of apprenticeship, whereby secondary school students are given a possibility to simultaneously learn a profession at a company of their choice, under the supervision of a qualified worker (a “master”). Furthermore, the influence of the Chamber of Commerce and Industry and the trade unions on vocational training was boosted. Just like in Germany, Slovenian companies make big investments into the continuous vocational training of their employees.

The above qualities of industrial relations, firm-to-firm relations as well as relations between firms and their employees are interrelated. In those post-communist countries where the institutional organisation of the economic system approximates the ideal types of LME and CME most closely, the mutual relations of

¹¹ See <http://www.cedefop.europa.eu/EN/Files/121_Part_in_gen-voc_progs_educ_ipart_s_2011-01-04.xls> 27.03.2011.

the institutional spheres discussed above clearly display the working of the logic of complementarity of institutional spheres of capitalism as an economic system in the way it is explicated in the theory of VoC by Hall and Soskice. It is the most evident in the case of Slovenia, blessed with capitalism that is an unambiguous case of CME. Coordination of wage bargaining on the national level prevents the poaching of employees and compresses wages, and also provides incentives for firms to invest into the vocational training of their employees. So they have a task force necessary for production of internationally competitive high quality diversified production.

Investing into the acquisition of specific skills in the Baltic States entails too much risk, because such skills could only be asked for by few employers or might not have any demand at all after the production technology shifts. The risk of investing into specific human capital may be more acceptable for a worker, if there is strong employment protection. Alternatively or complementary, these risks may be alleviated by a generous welfare state, which pays unemployment allowances to specialists who have lost their jobs at the amount sufficient to maintain their current level of subsistence for a period of time necessary to acquire equivalent qualifications. This is typical of Scandinavian countries with their flexicurity employment regime, where weak employment protection is compensated by strong unemployment protection and active labour market policy.

Slovenia stands out with its high level of both employment and unemployment protection, which is measured by the amount of allowances received in the event of a job loss (Buchen 2007: 75–78). In Estonia and Lithuania, which spend the smallest proportion of GDP on unemployment benefits among all of the EU-27 members (0.2% of GDP on average in 2000–2006 according to Eurostat), a person who has lost their job, after 6 to 12 months of living on unemployment allowances runs the risk of getting paid an unemployment allowance much below the subsistence minimum (in 2007 in Estonia it was 11.1% of the minimum wage, which may be the lowest of the EU-27; see Saar and Lindemann 2008: 173). Employees in the Baltic countries who could be laid off easily and quickly do not take the risk of investing into the acquisition of specific skills. They prefer education which provides general skills and facilitates them finding a new job faster.

6.2. Baltic Capitalism(s) – New Liberal Market Economies Between the Core and Periphery?

However, while we can find a complete set of CME institutions in Slovenia, the Baltic countries match the ideal type of LME only to a certain degree. The financial sector is developed rather poorly even in the most economically liberal of post-communist countries. That is the chief difference between the most neoliberal of post-communist capitalism and even the most inconspicuous cases of LME in the

core of the capitalist world economy. The key indicators of development of this sector are (1) stock-market capitalization (share price times the number of shares outstanding of the publicly traded companies) to GDP, (2) stock-market liquidity (total value of the shares traded by GDP), (3) stock-market turnover ratio (total value of shares traded during the period divided by the average market capitalization for the period), (4) domestic credit provided by banks to private sector to GDP ratio (Lane 2007; 2005).

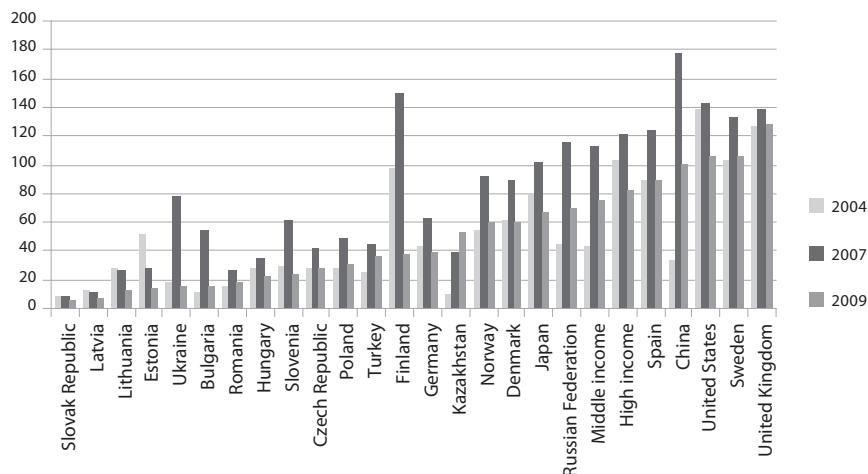


Figure 6.2. **Stock market capitalization to GDP ratio in 2004–2009.** Data source: *World Bank: World Development Indicators 2010*, <<http://www.worldbank.org>>.

Low stock-market capitalization to GDP ratio may show that stock is undervalued or that only part of the companies are listed on the stock market. Of course, even affluent countries differ significantly in this regard (compare Germany and the U.S.), because the main source of corporate finance in CME countries is bank loans rather than income from stock sale the way it is with LME states. Even though in the pre-crisis year of 2007 this indicator had risen significantly with some of the post-communist countries (Slovenia included), its average value is much lower as compared to both CME and LME countries within the core of the world capitalist system (see fig. 6.2). This means that the financial markets in post-communist countries are still so shallow that there are no reasons to classify even one of them as an LME country, where the stock exchange is the main steering institution of the national economy.

The data about stock-market liquidity (fig. 6.3), stock-market turnover (fig. 6.4), and the domestic bank credit to the private sector (fig. 6.5) provide even more important comparative information about the state of corporate finance and governance in post-communist countries.

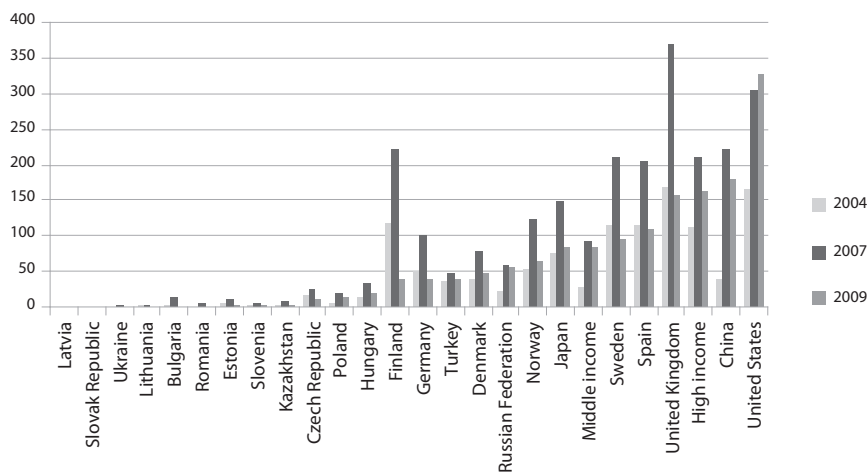


Figure 6.3. Shares traded by GDP in 2004–09. Data source: *World Bank: World Development Indicators 2010*, <<http://www.worldbank.org>>.

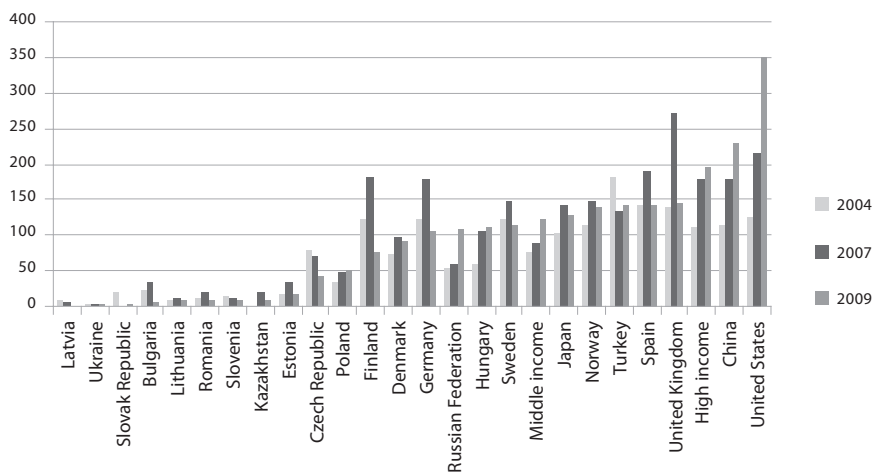


Figure 6.4. Shares traded by stock-market capitalization in 2004–2009. Data source: *World Bank: World Development Indicators 2010*, <<http://www.worldbank.org>>.

The data in fig. 6.3 indicate that in some developed capitalist countries, the amount of property rights that change hands over a year can sometimes exceed the value of new wealth created during that year by more than three times. The data from fig. 6.4 about the ratio between the value of stock sold to a different owner during the year and the aggregate value of ownership rights as appraised on the stock exchange give some insight into how often that happens. If we were to disregard individual record years, this ratio can only reach 100% in some exceptional cases in post-communist countries.

An interesting fact is that the Baltic States, which in other respects (such as relations between employees and firms and education systems) most closely resemble LME, are not among the post-communist countries with the most liquid and vigorous property rights markets. This means that stock remains for a long time in the hands of the same owner. Stock is bought to acquire a controlling stake in some corporation rather than to trade on the stock exchange, something that is typical of countries with well-developed financial markets. This is the reason behind the tremendous year-on-year fluctuations of this ratio in post-communist countries as well. When a domestic “giant” still in the possession of the government is sold via a stock placement, the value of this ratio goes up and then freezes again at a low position. For developed capitalist states, the values of this ratio are several times higher, which indicates a much higher mobility of property rights.

The most popular legal form of a company in post-communist countries is still the private joint-stock company, which is usually run by its owners. The stock of such companies is not available on the market, and outsiders cannot buy its partial ownership rights. This is one of the things that makes post-communist capitalism different from the stockholder capitalism of LME states, where corporation managers are under constant threat of “hostile takeover”. Jointly with the managers goal of improving their own position on the manager labour market, this threat compels them to act in the interests of their principals (stockholders). The domination of the companies managed by their owners makes post-communist capitalism also different from the “stakeholder capitalism” of CME states, where managerial supervision is done by banks that have the human resources competent enough for this task (cp. Dore 2000).

Post-communist capitalism in Lithuania and, to a lesser extent, in Estonia rather resembles the old capitalism of the 19th century, when the functions of the owner and the manager had not yet split up. However, even in the cases when firms are open, i.e. are listed on the stock exchange, their owners usually includes one investor – an individual or an entity (other than a bank) – who is the holder of the controlling stock and bears most of the responsibility for the supervision and control of the chief managers of the firm.

Another thing that is underdeveloped in post-communist countries are credit relations that once were even considered the key trait of a capitalist economy by Bruno Hildebrand (1812–1878), a famous representative of the German school in national economy, who distinguished three stage in the development of economic life: natural, monetary and credit economy (see Norkus 2001: 344). This is evidenced by the data on the ratio between the gross value of bank credits to private clients and GDP (see fig. 6.5). In the absence of both active, deep and liquid stock exchanges and an adequate supply of banking credit, foreign direct investments

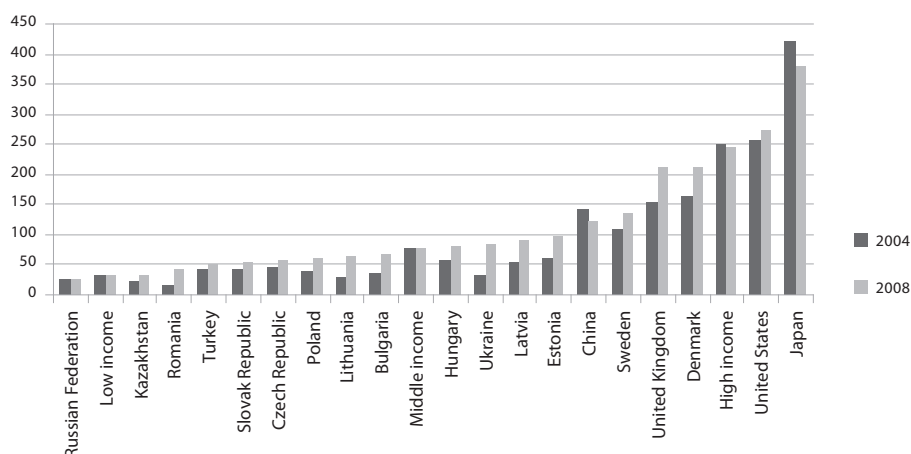


Figure 6.5. **Domestic credit to private sector by GDP.** Data source: *World Bank: World Development Indicators 2010*, <<http://www.worldbank.org>>.

and provisions from profit are the main source of financing the development or renewal of production.

The second difference between post-communist neoliberal capitalism and that in the old Western countries is that post-communist countries are importers rather than exporters of capital. This is one of the most important distinguishing features of the economies which do not belong to the core of the world capitalist system.¹² The share of foreign investments in these countries is much larger than the respective portion in the structure of capital accumulated by the old capitalist countries (Lane 2007: 26). Accumulating capital from local sources is predominant in these countries. Among major transnational corporations (TNC), those that have their principal capital originating from post-communist countries are relatively few. Only twelve corporations from post-communist countries (other than China) made it into the *Financial Times* list of 500 largest (in terms of the size of their capital) private corporations in 2010.¹³ With one exception (for conglomerate ČEZ from Czech Republic, involved in the electricity generation, distribution, and trade), they are all Russian companies that are mainly engaged in exports of energy resources (*Gazprom*, *Surgutneftegaz*, *Rosneft*, *Lukoil*, *Sibneft* and others). Even though some of the post-communist countries (the Czech Republic, Poland, Hungary and Estonia) attract huge foreign capital investments, there are

¹² Still, this trait should not be taken as absolute, because capital can also be exported by some countries of the periphery (e.g. those that capitalise on exports of raw materials, just as it is with Russia).

¹³ See *Financial Times Global 500*. 2010, <<http://media.ft.com/cms/66ce3362-68b9-11df-96f1-00144feab49a.pdf>> 20.08.2011.

only a few corporations registered in these countries that have their shares listed on international stock exchanges (in New York, London or other world financial centres). To achieve that, a corporation must regularly submit data on its business in compliance with strict audit standards.

In order to create an active and liquid stock market, it is imperative to protect the rights of the small shareholders to make buying and selling stocks a more appealing form of saving for the middle class in the making as compared to keeping money in banks (see Gourevitch and Shinn 2005). However, an active and liquid stock market can only take shape as a result of a long process, as part of the overall economic development. Ideologists of economic neo-liberalism say that introducing LME institutions is the shortest and quickest way for a country to get rich. In reality, apparently, things are somewhat different – the country first of all needs to become rich and developed to have *all* of the typical LME institutions. Only when they are fully kitted out can their complementarities, which are the sources of the comparative advantages of LME, begin to show. According to Hall and Soskice, these advantages stem from the ability of LME financial institutions to mobilize venture capital for investment projects aimed at bringing the most advanced scientific discoveries to technological application (see 3.1).

Although the institutional arrangements in the Baltic States approximate LME the most, they cannot give them the comparative advantages that LME institutions provide for the U.S. and other Anglo-Saxon countries. Latter countries take leading positions in science, which the U.S. holds because the state subsidises elite (research) universities a great deal, and there is an ample supply of venture capital. Until post-communist states become affluent and reach the technology frontier, differences in the institutional arrangements matter not as the basis of comparative advantages in different types of genuine innovations, but rather as causes of disparities in the absorptive capacity. This is the capability to assimilate and apply new ideas and technology developed abroad (see Abramovitz 1986). Its effects are measured by the changes in total factor productivity (TFP) which also reflects improvements in human capital and efficiency of organisation. Along with factor accumulation (use of additional labour force and capital) this is one of the sources of economic growth. Innovation-driven growth is displayed in the most pure form when output increases despite the decrease in labour and capital.

Comparing the varieties of post-communist capitalism, it seems that post-communist REC countries displayed the highest absorptive capacity, with state capitalist countries following next, and political oligarchic countries trailing the last. As a matter of fact, the technology gap between them (in particular, Russia) and frontier countries increased. Among the post-communist REC countries, the Baltic States displayed the greatest TFP increase in the EU pre-accession years 1995–2001 (see fig. 6.6): “increases in TFP are estimated to have contributed 4.25

percent to annual GDP growth in Estonia, 3.75 percent in Latvia, and 3 percent in Lithuania. These estimates are somewhat larger than similar estimates for other acceding countries and significantly larger than estimates for the euro area” (Burgess et al. 2004: 25).¹⁴

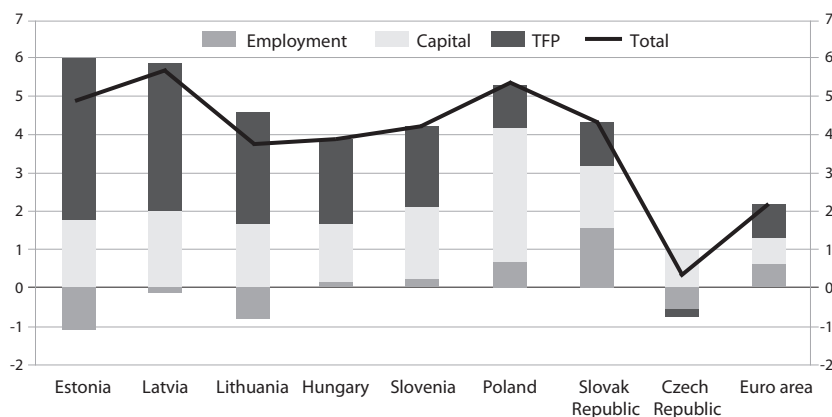


Figure 6.6. Contribution of total factor productivity (TFP), employment, and capital increases to average GDP growth, 1995–2001. Reproduced with permission of International Monetary Fund from Burgess, Robert; Fabrizio, Stefania; Xiao, Yuan. 2004. *Baltics: Competitiveness on the Eve of EU Accession*. Washington: IMF, 24 (© 2004); permission conveyed through Copyright Clearance Center, Inc. The height of columns represents average GDP growth in % in 1995–2001.

Econometricians do not agree on how TFP and its changes should be calculated. Lithuanian researcher Igor Vetlov asserts that in 1996–2002, the growth of TFP was the fastest not in Estonia, but in Lithuania: increases in TFP have contributed 1.4 percent to 5.1% annual average GDP growth in Estonia, 3.1 percent in Latvia (from 5.8% annual GDP growth) and 3.9 percent in Lithuania (where average annual GDP growth was 4.9%) (Vetlov 2003: 24). The results of the calculation depend on assumptions about (1) capital stock, (2) labour and capital income shares, (3) the depreciation rate for the capital stock and (4) the intensity and quality of labour input. Alf Vanags and Rudolfs Bems conducted a sensitivity analysis on how calculation results vary in response to changes in these assumptions. Their final conclusions about the contribution of the increases in TFP to annual GDP growth in 1996–2002 are as follows: in Estonia – from 2.3% (min) to 3.2% (max) of 5.2% average annual growth; in Latvia – 2.1–3.1% of 5.6% average annual growth, in Lithuania – 1.1–3.4% of 4.7% average annual growth (Vanags and Bems 2005: 18).

¹⁴ These trends of 1995–2001 may not have continued in later years.

The knowledge of the exact contribution of TFP increases to annual growth is important for estimating how important FDI are for TFP growth, because Estonia has accumulated FDI stock per capita that is the largest not only in the Baltics, but among all post-communist countries. Generally, FDI are important vehicles for technology transfer. However, not all FDI may serve as such vehicle. Not all FDI have positive spill-over effects by links with local firms to move the host economy closer to the frontier. With no such cluster-building effects, the outcome can be a country with two economies: one based on the activities of foreign enterprises and the other based on domestic small enterprises and traditional economic sectors. The investments of TNC in the mining, gas or oil industries in underdeveloped countries is a case in point. The quality of FDI is contingent on the mode in which the transition country was inserted into the world capitalist economy, which is revealed by the structure of the country's foreign trade and how its overall payment balance is maintained.

If the true values of the contribution of the increase of TFP to the GDP growth are closer to those reported by Robert Burgess and his collaborators, then one would have the basis for the assertion that the neoliberal Baltic model during the EU pre-accession years may have displayed comparative institutional advantages in the catch-up growth in comparison with Visegrád countries.

Together with Visegrád countries, the Baltic States represent the ideal type of rational entrepreneurial capitalism (REC) that was described in 3.2 as dependent market economy (DME). I used the characteristics of this type of capitalism provided by Andreas Nölke and Arjan Vliegenthart, who consider the Visegrád countries as its prototypical cases. Basically, this ideal type is approximated also by the Baltic States. However, there are important differences from the Visegrád states that validate the distinction between two subvarieties of DME as a variety of REC behind the frontier. The most important among them are related to economic policy. The economic policy of the Visegrád states was oriented to attract high-quality investment to upgrade existing industrial bases and cluster them in the regions, attempting to embed them in the local economy and create spill-overs.¹⁵ Such a policy involves discrimination among foreign investors in terms of their potential contribution to the technological upgrading of a country. The main means of such policy are targeted investment subsidies (e.g. employee training grants, free economic zones, tax breaks, infrastructure development subsidies).

¹⁵ This does not mean that such policy was pursued from the very exit from communism as some "grand strategy". Rather, the Visegrád states converged on such policy by the end of the first decade of post-communist transformation. Initially, the Czech Republic under Václav Klaus attempted to build a national variety of CME, and Poland attempted for quite a short time (under Leszek Balcerowicz) the "Friedmanian" (see below) policies.

Following the suggestion by Jan Drahokoupil (Drahokoupil 2007: 2008), I will designate the DME under the aegis of state pursuing such active trans-nationally oriented industrial policies as Porterian DME or Weberian-Porterian capitalism, because “this management follows a Porterian logic of competitiveness which is achieved from the high and rising levels of labour productivity associated with high-tech production processes and the intensive use of highly qualified labour” (Drahokoupil 2007: 416). The Baltic States represent another variety of DME that can be designated as Friedmanian DME or Weberian-Friedmanian capitalism.

I do not mean that while economic policy makers in the Visegrád countries read Michael Porter’s “The Competitive Advantage of Nations” (Porter 1998 (1990)), those in the Baltics had the works of Milton Friedman or Friedrich Hayek on their desks.¹⁶ Rather, I mean there is broad correspondence of the actual policies (no matter what the actual reasons for them were) to the economic philosophies associated with these names. Baltic capitalism is Friedmanian because of the overriding role of the maintenance of the macroeconomic stability and the central role of monetary institutions in the economic systems of the Baltic countries. Because of the central role of these institutions, it can be even designated as “currency board” capitalism.¹⁷ The macroeconomic stability has precedence over industry upgrading, not to mention social inclusion. Under Porterian DME the maintenance of macroeconomic stability ranks second after industry modernization, and social inclusion is quite important, even if it is expected to be achieved not by means of redistributive welfare state, but rather by those of disciplinary workfare regime.

This does not mean that the attraction of FDI is not considered important under Weberian- Friedmanian DME. Quite the reverse, they are deemed as a panacea for all economic problems, the sole exception being the discrimination against Russian capital in Estonia and Lithuania.¹⁸ However, the success in this pursuit is expected from market forces, providing low cost and a flexible environment. Unfortunately, because of geographical closeness and similarity of the economy structures, the Baltic States are bound to compete among themselves for FDI, with some features of zero-sum game in this process. In this competitive

¹⁶ However, Mart Laar, the most prominent figure of neo-liberalism in the Baltics himself recognized the impact of Milton Friedman’s ideas. Friedman’s book *Free to Choose* was the only book on economics he had read before becoming the reformer prime minister. See Cato Institute 2006.

¹⁷ As a matter of fact, Latvia does not have a currency board as an institution, but it has a de facto currency board system, as its national currency Lats was pegged to foreign currencies basket and then to the Euro.

¹⁸ Fears and worries about the geopolitical dangers of the ownership by Russia-based companies of the “strategic objects” are shared by the ethnic political elites in all three Baltic States. However, in Latvia their exclusion is much more difficult because of the strong position of Russian and Russian-Jewish minorities in the Latvian economy (see 5.5).

struggle, Estonia has done well, with its stock FDI per capita twice as high as in the other two Baltic countries and higher than in any other post-communist state (see below for exact numbers).

Due to this substantial disparity between Estonia and the rest of the Baltic countries, it is impossible to agree with the researchers, who apply the world systemic framework for analysis of post-communist capitalism, and classify all three Baltic states as cases of semi-peripheric (Bohle and Greskovits) or even peripheral capitalism (Drahokoupil and Myant) together with Bulgaria and Romania (see 3.2). For Bohle and Greskovits, the main reason for such classification is the export structure of the Baltic States: while semi-core countries export mainly heavy-complex and light-complex production, those from the semi-periphery are exporters of heavy-simple and light-simple production.

According to Greskovits, among European post-communist countries, the Baltic States together with Romania are exporters of light-simple production. Therefore, Greskovits classifies all these states as semi-peripheric capitalist countries. By the way, the share of heavy-simple products in Lithuania's exports is the highest in relative terms, standing at 37% as compared to 29% in Estonia and 26% in Latvia (see Greskovits 2005: 115). However, this is irrelevant for the conclusion about the semi-peripheric nature of Lithuanian capitalism, as this category includes countries with simple export production of both kinds. Pointing to the almost permanent current account deficit of the Baltic States, Myant and Drahokoupil supplement this analysis with the observation that the Baltic States travel the path of foreign financialized development because of a lack of a solid export basis (Myant and Drahokoupil 2011: 101, 307–310).

I have no argument with the conclusions of these researchers about Latvia and Lithuania. On final analysis, they are semi-peripheric dependent market economy countries. However, although Estonia, like the rest of the Baltic States, represents the same – Weberian-Friedmanian – DME variety of REC, it cannot be classified as a semi-periphery or third-rank capitalist state. Instead, together with the Visegrád countries it should be considered as a case of the semi-core or second-rank capitalism.

Firstly, let me repeat that among all post-communist countries, Estonia is the most successful in attracting FDI. In the last pre-crisis year 2007, its stock of FDI as a percentage of GDP was 79%, which means 12,347 US\$ per capita. This not only exceeds by far Latvia (39%, 4,586 US\$) and Lithuania (38%, 4,325 US\$), but also leaves behind the Visegrád countries: the Czech Republic (60%, 9,825 US\$), Hungary (70%, 9,671 US\$), Slovakia (56%, 7,735 US\$) and Poland (34%, 3,727 US\$) (see Myant and Drahokoupil 2011: 279).¹⁹ Given these numbers, it strains

¹⁹ Calculated from the UNCTAD Foreign Direct Investment database UNCTADStat, available at <<http://unctadstat.unctad.org/>> 24.04.2011.

the imagination to classify Estonia together with Bulgaria and Romania as Myant and Drahoukupil do. “Estonia, for instance, ranked among the first group (semi-core. – Z. N.) in terms of its per capita GDP, but its export structure and reliance on financialized development puts it, on balance, into the peripheral group” (Myant and Drahoukupil 2011: 310–311).²⁰ However, according to the data provided by these authors themselves, the share of machinery complex in the total export of Estonia was not much different (circa 30%) from that in the export of Poland, which is considered by them as second-rank (semi-core). The share of light industry and semi-manufactures in Estonian export has decreased since the 1990s, displaying the trend quite similar to that in the export structure of the Visegrád states (see Myant and Drahoukupil 2011: 73–74).

All three Baltic States suffered from the Vanek-Reinert effect: when two nations at widely different technological levels integrate on free market terms, the first casualty is the most advanced economic activity in the less advanced nation, leading to partial deindustrialization of the relatively weaker economy (see Tiits et al. 2008: 73). However, the early success of Estonia in attracting FDI alleviated the impact of this effect on the economy of the country. When foreign capital arrived in Latvia and Lithuania, the enterprises with technological capabilities in middle- to high-tech level manufacturing were already bankrupt, their equipment was stripped away for alternative uses in services and low-tech level production (e.g. domestic or gardening appliances for local markets) and large parts of the labour force were deskilled. Foreign investments were directed to banking, telecommunication, and infrastructure monopolies sectors and did not contribute significantly to the maintaining or upgrading of the export-oriented production capabilities.

Those surviving and upstart Lithuanian and Latvian enterprises that were able to enter foreign markets, could only do this by joining consumer-driven international commodity chains as subcontractors for low-skill labour intensive products. So these countries entered the “low road” development path, characteristic for semi-periphery countries. Differently, some middle- and high-tech enterprises (e.g. in electronics²¹) in Estonia became subsidiaries of TNC early on, joining international commodity chains in positions and on conditions not different from the paragon cases of the semi-core DME in Central Europe.

The structural level differences between Estonia and Lithuania as cases of the Weberian-Friedmanian capitalism that had already emerged by the end of the first post-communist decade became deeper during the second ten years. According to the findings of Tiit Paas and Jüri Sepp, Lithuania was almost unique among EU countries, with its economy “swimming against the stream” in the added value

²⁰ Myant and Drahoukupil 2011. The total list of third-rank post-communist capitalist countries provided by these authors includes Bulgaria, Latvia, Lithuania, Estonia, Croatia and Romania.

²¹ See case study: Kalvet 2004.

structure in 2000–2005 (Paas and Sepp 2008). Most of them (including Estonia) shifted to a post-industrial service economy (with Ireland the most pronounced case of such shift) and witnessed a decline in the share of industry due to the increase of the traditional services (trade, tourism, transport). Lithuania demonstrated both a decline in the share of industry and a shift away from the modern services. Latvia made no progress to modern services, displaying a decline in industry (see fig. 6.7).

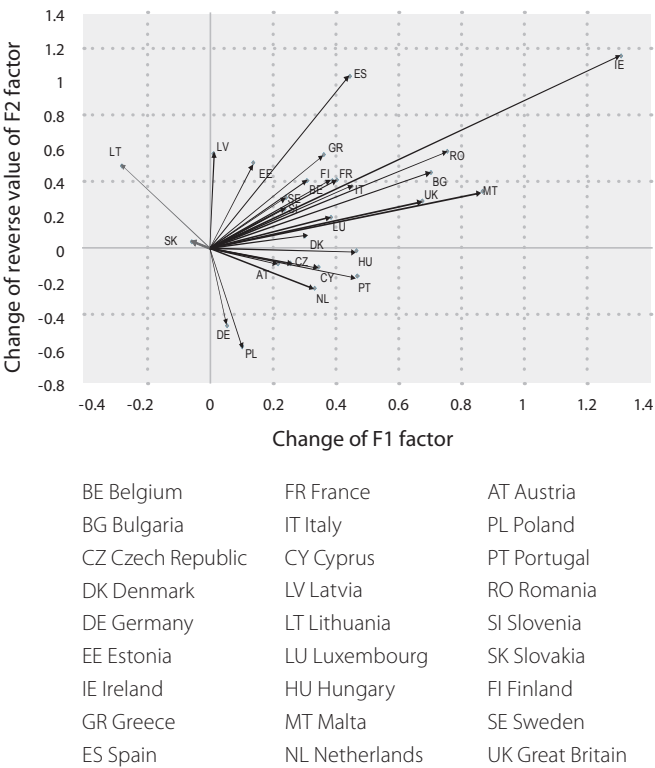


Figure 6.7. Shifts of EU-27 countries in the factor space of the added value sector structure in 2000–2005. Reproduced with permission of Estonian Cooperation Assembly, Tiiu Paas and Jüri Sepp from Paas, Tiiu; Sepp, Jüri. 2008. “Structure of the Estonian economy”, in Heidmets, Mati; Terk, Erik (eds.). *Estonian Human Development Report 2007*. Tallinn: Eesti Ekspressi Kirjastus, 96 (© 2008). Factor 1 has negative loads for initial indicators describing agriculture, forestry, and high positive loads for financial mediation and other modern services. It may be interpreted as an index of post-industrial service economy. Factor 2 has negative loads for construction, tourism, transport, trade and positive loads for industry. It may be interpreted as an index describing the environment for industrial technological innovation with downward shifts representing its improvements.

Perpetual current account and foreign trade deficits are common to all three Baltic States. For a catching-up country, such deficits are natural if they are driven by imports of new technologies and machinery to develop export industries and services. As a matter of fact, this seemed to be the main cause of these deficits in the 1990s. However, in the years following EU accession in 2004, when the Baltic States were described by some analysts as new “tigers” because of GDP growth rates, then the highest in the EU-27, the causes of current account deficit have changed. The rapid growth after 2004 was mostly internal consumption driven, being propelled by “generous” lending from foreign owned banks. Construction and real estate sectors expanded, while many enterprises producing for export lost their competitive advantage due to wages increasing more than productivity.

Trade deficits rose to 30–40% of GDP, and those of current accounts to 15–22% of GDP (See Baltic Development Forum 2010: 69–98). These were the main causes why the Baltic States became one of the European Union countries that were hit most harshly by the world-wide crisis which started with the credit crunch following the collapse of the Lehmann Brothers bank in September 2008. Coping with the crisis, all Baltic countries chose the policy of maintaining the currency peg at all costs. This has led to internal deflation with unemployment of up to 20% of labour force in Latvia and a decrease in both nominal and real wages. Estonia suffered the least, because its government used the budget surplus in the pre-crisis years to accumulate reserves which helped to withstand the crisis. Moreover, Estonia used the improvement of the overall payment balance to fulfil the EMU convergence criteria.

I would argue that the differences in the performance under crisis conditions among the Baltic States are not just the outcome of the wiser management of public finances in Estonia. The analysts who consider them all as cases of peripheral or semi-peripheral capitalism, do not pay due attention to the very thorough integration of the Estonian economy with Finland and Sweden which are first-class economies with a high degree of specialization in research, development and high-tech value added exports (Ehrlich et al. 2002). For Estonia, the world economic crisis of 2008 endangered its already achieved position as a semi-core economy, while Latvia and Lithuania face the prospect of downgrading to peripheral remittance economies.

The crisis caused an unprecedented wave of emigration in Lithuania. According to data from the population census in 2011, in 2001–2011 alone, the population of Lithuania decreased from 3.483 million²² to 3.053 million.²³ This means

²² According to data of the population census in 2001. See <http://www.stat.gov.lt/uploads/docs/2002_06_25.pdf> 09.06.2011.

²³ See <<http://www.stat.gov.lt/lt/news/view/?id=10038>> 09.06.2011.

the loss of more than 12% of the population in only ten years.²⁴ No wonder that according to recent research, emigrant remittances play an increasingly important role in the maintenance of Lithuania's overall economic balance (Čekanavičius and Kasnauskienė 2009). The situation is quite different in Estonia, where an increasing part of the Estonian population is becoming commuters between Tallinn and Finland, joined by the Finns settling on the Southern shore of the Finnish bay. As Estonia grows together with the Nordic countries, becoming a kind of Southern Finland, its chances of moving into the capitalist world core are quite good.

It may appear that the statement about the neoliberal nature of the capitalism which is taking shape in Lithuania is contradicted by the fact that many of the Lithuanian institutional spheres possess features that point to their affinity to other types of capitalism. Dainius Bernotas and Arvydas Guogis argue that the social security system in Lithuania still resembles the clientelist corporative model of Southern Europe more than a residual Anglo-Saxon welfare state (Bernotas and Guogis 2006: 161–163).

However, when it comes to pinning down the typological identity of the young post-communist capitalism of Lithuania, the most important thing is the trends in the development of the institutional architecture of a country. The logic behind this architecture is disclosed by the theorem about the complementarity of different institutional spheres advanced by Hall and Soskice. Even the countries that had opted for the most radical shock therapy were unable to reform all of the institutional spheres of public life all at the same time. Reforms of the education, healthcare, social security and pension systems have been postponed for later, in the meantime sticking with the system inherited from the communist era, with minor alterations. That is why institutions in both Lithuania and other post-communist countries are a motley conglomerate, in which different institutional spheres behaviour is based on varying logics with contradictions that have dysfunctional consequences. It is these incompatibilities that are the driving force behind the reforms and the transformation of post-communist capitalism towards a more consistent model of capitalism.

When it comes to the direction in which institutional sphere reforms progress in Lithuania, it is easy to see that it goes exactly towards neoliberal LME. This fact is witnessed by the tendencies of the social security, healthcare and higher education reforms, both underway and pending. This is something that the authors who have just been quoted note as well in their comparison of the social policy models in European countries.²⁵ “The Eastern European (Lithuania included) model can

²⁴ In 1990, Lithuania had a population of 3.7 million, so during two decades of independence the population of Lithuania diminished by some 17%.

²⁵ This book is grounded in a broader comparison: social policy models and social security systems are treated as institutional spheres of capitalism. The mixed and transitional types of capitalism are characterized by the lack of mutual fit and contradictions between the logics behind the functioning of individual institutional spheres.

be characterized as intermediate between the Central European corporatist and Southern European corporatist-clientelist model, which is marked by strengthening trends of liberalisation” (Bernotas and Guogis 2006: 245). Jolanta Aidukaitė arrives at a similar conclusion saying that the social security systems of the Baltic countries are interim cases between the liberal residual and the conservative regimes of welfare (Aidukaitė 2004: 82–83), as they are described by Esping-Andersen (1990). Interestingly, Aidukaitė did find even more attributes of a liberal regime in the social security system of Lithuania than can be found in the case of Estonia (*ibidem*).

As a matter of principle, there is no direct connection between the variegation of a welfare state or a welfare regime and the types of capitalism which I define (following Amable, Hall and Soskice) as systems of institutional arrangements for organisation of production and innovation. There is broad correspondence between types of capitalism and welfare regimes, but not one-to-one type. LME displays elective affinity with a residual welfare regime or a minimal welfare state, while CME can be complemented by a corporatist conservative or social-democratic universal welfare regime. The relation between the variegation in types of capitalism and that of welfare regimes is mediated by politics and culture. Therefore, the transformation of welfare regimes by the changes in the systems of production and innovation is a slow-moving process. This is a long-run phenomenon, taking longer than just the two decades that have passed since the exit from communism.

The stop-go change in the welfare regimes of the Baltic and Central European states is a case in point for such mediation. Central European states with the Weberian-Porterian variety of DME financed (even at the cost of the steadily increasing public debt) rather generous welfare regimes, because they were the key element in the “divide and pacify” strategy to manage the discontent among market reforms losers (see Greskovits 1998; Vanhuyse 2006). In these countries, the ageing workers whose jobs were destroyed by creative (but sometimes also by uncreative) capitalist destruction were compensated with early retirements (“firing and retiring”) and increased pensions. The governments of the Baltic States with Weberian-Friedmanian DME had much more limited space for such policies, so the progress (or regress) from the communist “premature welfare state” (János Kornai) to the residual liberal welfare states was much more considerable.

However, in the prosperity years 2001–2007 even the right-wing governments in the Baltic States could not withstand the temptation to use budget surpluses to improve their re-election chances by increasing pensions, expanding maternity and child benefits. They could barely avoid taking pro-natalist social policy measures because of the public perception of a brewing demographic crisis, endangering the very existence of the small Baltic nations. So the political reasons

didn't only slow down or even stop the reforms of the received welfare institutions to re-organize them according to the neoliberal self-reliance principle. On some occasions they have led to moves in opposite directions, introducing into the institutional environment of the Weberian-Friedmanian capitalism institutions that were out of tune with its logic.

The characteristic example of such reforms that produced this "institutional cocktail" is the decision of the Lithuanian government to introduce a 2 year maternity or paternity leave since January 2008. Until a child was one, the parent (guardian) who took care of the child was paid maternity (paternity) social security allowance at the amount of 100 per cent of the parent's salary, and after the child reached the age of one and before they turned two, the allowance dropped to 85 per cent of the parent's salary. So for a short time (the benefits were cut after the outbreak of the crisis) Lithuania had the most generous maternity/paternity benefits in the EU-27.

However, the onset of the crisis put systemic forces to work again, making it clear that only a minimal welfare state can be financially sustained under the restrictive conditions of the Weberian-Friedmanian capitalism. They constrain national states to focus on maintaining macroeconomic stability at all costs and to engage in the tax cuts competition to attract FDI. Given these realities, it is difficult to accept the view about the emergence of the new *stable* type of the welfare regime-in-making on a par with the "classical" three types of welfare regimes identified by G. Esping-Andersen on the basis of the evidence about the affluent states (see e.g. Fenger 2007). Instead, the similarities between the national welfare regimes of post-communist countries can be explained by the still remaining legacies of the "premature welfare state" from the communist time. As these legacies are increasingly dismantled, one can expect the convergence of the welfare regimes in the countries of Weberian-Friedmanian capitalism with a minimal or residual welfare state in the Anglo-Saxon countries. The welfare regimes in Weberian-Porterian capitalist countries can be expected to converge with the conservative corporatist welfare regime in the old EU continental countries.

The character and content of other reforms (those of the education or health-care systems²⁶) that are in progress or only at the planning stage in Lithuania, can more often than not be explained by the functional needs of the more consistent Weberian-Friedmanian capitalism and the interests related to such needs, rather than by the public declarations used to legitimate such reforms. For instance, the pension system reform that is currently in progress in Lithuania (see Lazutka 2006) helps in creating an active and liquid stock exchange rather than serving to

²⁶ For the most up-to-date analysis of changes in the Lithuanian healthcare and higher education see Leonavičius et al. 2007; Leonavičius and Rutkienė 2010.

boost the well-being of retired individuals, even if only a fraction of the moneys of private pension funds will be invested in Lithuania.²⁷ The key consequence of introducing paid higher education will not be a jump in its quality (colleges and universities will not be given more resources for studies and research), but rather an expansion of credit relations that are so far making post-communist countries lag behind the developed LME states, which will open new business opportunities for the financial sector.

6.3. Could Lithuania Have Become the “Baltic Slovenia”?

So let me sum up the findings about the identity of Lithuanian capitalism. All three Baltic States are cases of the Weberian-Friedmanian variety of dependent market economy as a type of REC. However, while capitalist world system semi-core country Estonia is poised for another spurt to break into the capitalist core after joining the EMU, semi-peripheric Latvia and Lithuania are struggling to restore their macroeconomic balance and not to fall back into the periphery of world economy due to the failure to build a solid export basis. While Estonia can be considered as a rather successful case of Weberian-Friedmanian capitalism (immature liberal market economy) this cannot be said about the trailing Latvia and Lithuania. Were there then any alternatives for Lithuania to becoming a “laggard Estonia”?

The question about the alternatives for the actual pathway of the post-communist transformation in Lithuania is the main reason why Lithuania is compared with distant Slovenia in this book. Actually, the question about the possibility of the Slovenian alternative for Lithuania can be divided into two: is (and why is?) this alternative desirable? Was/is it possible? I will start with the desirability question and will continue with the possibility question. After I answer the latter question (in the negative), in the last section I will take a look at it from a different point of view: could it have been possible for Slovenia to become not the first post-communist country to make it into the core of the world's capitalist system, but rather a semi-periphery state of that very same system, similar to the factual Lithuania?

So why may the present pathway of the development of Lithuanian capitalism leading to a more coherent Weberian-Friedmanian DME and then (hopefully) to the LME version of advanced REC be considered suboptimal in terms of social welfare in comparison with that leading to the CME version of REC? Is it really better to lag behind Slovenia than to trail behind Estonia?

With the first decade of post-communist transformation coming to its end, Arvydas Guogis, Dainius Bernotas and Domas Ūselis conducted a study of the ideologies of 20 Lithuanian political parties, which has shown that only three

²⁷ According to a 2003 survey of private pension fund managers, they only planned to invest 20% of the moneys in Lithuania (Lazutka 2006: 343–344).

marginal parties were in favour of the social-democratic development scenario, while the rest were leaning towards the neoliberal script or had no really clear stance in that regard (Guogis et al. 2000). As the second decade began, the moods started to swing. This is how the social model that suited Lithuania best was described by Vaidutis Laurėnas, a prominent Lithuanian political scientist in 2003: “a strong, but socially-minded government in a democratic system built under the principle of subsidiarity; a regulated market economy that takes account of global compacts on trade and monetary matters, with some precautions; progressive taxes, decommodification and more universal social programmes that raise the solidarity of the society” (Laurėnas 2003: 12). Such a “consensus of social democracy” with “interpolations of the conservative-corporative scenario” matches the reality in today’s Slovenia quite well.

Supporters of LME claim that the broadest possible transfer of economic and social problems to the free market is what is ultimately in line with the “public interest”. They assume that those who should be taking care of that public interest in their activities (i.e. politicians and bureaucrats) actually first of all are minding their own private interest. Any market failures that are caused (according to the neoliberal view) by insufficient depth and breadth of market relations pale against government failures. Therefore, the best way to satisfy the “public interest” is said to be by cutting taxes and the supply of public services that are available from the state.

However, the neoliberal economic policy is far from neutral in terms of allocation, as tax and public service supply reductions do not benefit every social group in equal measure. Consistent implementation of neoliberal ideas gives the biggest edge to the richest, most talented and enterprising part of society, which is in the minority. Thanks to its hereditary and acquired advantages, this part of the society earns rents, which get expropriated and redistributed under the conditions of the collectivist welfare regime. Neoliberal policy serves to protect these rents and hence it cannot be considered as an unbiased tool for protection of the “public interest”.

Most of the acquired advantages can be passed over to progeny – rich parents secure better starting positions for their offspring. Inherited advantages are undeserved and therefore even when neoliberal capitalism is the “people’s capitalism” (i.e. property rights are widely dispersed) it forms the economic basis for a class society rather than a meritocratic one. Inequality in a meritocratic society is the product of differences in effort from individuals with equal opportunities and their varying input into the enhancement of social welfare. In a class society, social inequality is the inequality of inherited unequal opportunities. Class inequality exists both in social (CME), and neoliberal (LME) capitalism states, albeit to a much greater extent when it comes to the latter (see Pontusson 2005).

As capitalism in post-communist countries is still very young, class inequality does not seem to be a crucial issue as yet – classes that are typical of capitalism are

still only forming in both Lithuania and other post-communist countries. Things stand a bit different with the issue of poverty as a result of traditional risks of life and new ones that the market economy has created. From the neoliberal point of view, this issue is best addressed with market tools by fostering the “market culture”: educating members of society in personal responsibility, which means private insurance against unemployment, loss of ability to work, illness, etc.

However, attempts to entrust the managing of risks of life to the market are faced both with the problem of market failures, and negative externalities. Such risks are spread unevenly. Some categories of the populace, like those with hereditary diseases might not be able to afford insurance due to its high rates. The careless approach to health in people who are prone to take huge risks and have a short life expectancy may have negative side-effects on others who have nothing to do with that; furthermore, it can turn into a “public evil” that the market will be unable to get rid of. Tuberculosis and other infectious diseases are a case in point (see Swaan 1988; et al.).

Besides, apart from the social security guaranties available to every individual and the sufficiently broad blanket social guaranties (primarily, in the areas of health care and education) for everyone regardless of their standing, it is not possible to ensure a high quality of life, which does not depend solely on the country’s GDP per capita (see Jokubaitis and Norkus 2006; Norkus 2004). The condition of the natural environment and public spaces, roads, the availability or absence of social solidarity and many other elements that are hard to measure create the social-ecological atmosphere of a specific location or the country as a whole, making it a more-or-less suitable and appealing place to live and work in. Growing social inequality – an inevitable consequence of consistent marketization – leads to people’s differentiation and segregation, which diminish said suitability and appeal.

Where economic policy aimed at promoting employment is shunned together with social security arrangements that allow out-of-work persons to subsist without working (or stealing), criminality blooms just as unemployment rates go up. This is first of all bad for the middle class that cannot afford the services of security firms, bodyguards, etc. What the state has saved on social security, it has to spend combating crime: bolstering the police and building new prisons. The significantly lower unemployment rate (as of the 1990s) is often identified as the key advantage of LME (in the U.S.) over countries in the old continent that are allegedly overcome by “eurosclerosis”. On the other hand, the U.S. is well ahead of every other developed country in terms of the number of prison inmates that, together with the immense corps of prison wards, are the American equivalent of the “reserve work army” (see Western and Beckett 1999; Sutton 2004).²⁸ By 2008

²⁸ In 1995, there was one prisoner per 20–50 unemployed persons in Europe, while in the U.S. this ratio is one per 3 (Western and Beckett 1999: 1040). These differences can be explained by the rather ungenerous support that the U.S. government gives to its unemployed to force them to work even though the wages might be very low.

the United States had the highest prison population rate in the world, 756 per 100,000 of the population, followed by Russia (629) and Rwanda (604). Estonia had 259, Latvia 288 and Lithuania 234 prisoners per 100,000 of the population. In Slovenia this number was 65, which is on the same level with other European social capitalism countries, e.g. Germany (89), Denmark (63), Finland (64), and Sweden (74) (see Walmsley 2009).

LME states are also characterized by a higher level of poverty as measured by the number of people below the poverty threshold (which, obviously, is quite relative and conventional). A neoliberal welfare state (like it is in the Anglo-Saxon part of the world) is unable to address the poverty issue, namely because the target recipients of the allowances and services that it provides (opposite to a social-democratic universal welfare state) are the destitute, who are distinguished as a separate social category certified by social security services, and belonging to this category is a social stigma (Rothstein 1998). Opposite to a social-democratic universal welfare state, a neoliberal welfare state only burdens the majority taxpayers (mostly the middle class) as they do not benefit from it in any way (having to rely on private insurance) and therefore keeping it as small and cheap as possible is in its interests.

While recognising the class inequality as an inevitable implication of the free market, neoliberals say that higher social-economic equality and social security can be “bought” only at the price of reduced economic efficiency. What makes the work of Hall and Soskice significant is that they show how and why there can be alternative ways to achieve an economic efficiency that is on par with that which can be attained under the conditions of the free market that economic neo-liberalism so idealizes. Judging by the criteria of the just society as formulated by John Rawls (Rawls 1971), CME is a better economic system as it has the same level of economic efficiency and at the same time allows the securing of a comparatively better position for the most disadvantaged members of society, i.e. those who cannot benefit from rents due to endowments by nature or social origin. Therefore, Slovenia (and, eventually, the Scandinavian countries as well) is worth catching up to.

But could CME (social capitalism) really have been created in Lithuania? Did Lithuania ever have any chance to actually follow the road of the “Slovenian” development? The reason for such question is provided not only by religious affinity (both countries are dominated by the Catholic confession), which is relevant for the purposes of evaluating the Weberian Protestant ethic explanation of the disparities between the Baltic States. Although the countries are geographically remote, they are similar in many ways and therefore make a suitable subject for a comparative study based on the design of most similar systems (Przeworski and Teune 1970: 31–39). Both these countries are among the smallest post-communist EU countries in terms of their territory, with Lithuania covering 65,200 sq. km and

Slovenia's territory amounting to 20,273 sq. km, and by their population (3.053 million in Lithuania and 2.0 million in Slovenia). Slovenia's larger economic potential counterbalances the size of Lithuania's territory and its bigger population. In 2010, Slovenia's GDP stood at US\$ 56.81 billion (US\$ 28,400 per capita), while in Lithuania the same indicator was US\$ 56.22 billion (US\$ 15,900 per capita), measured on the basis of the purchasing power parity.²⁹

Just the way it was for the Baltic countries, the Slovenians too had to endure a confrontation with the "centre", which tried to violently intervene with the people's clear will to live in an independent state. The Slovenians expressed this will on December 23th, 1990, when 88% of the country's populace voted in favour of independence, which was subsequently declared on June 25th, 1991. The very next day, the Yugoslavian military ("The Yugoslav People's Army") responded to this with military action, something for which the regional defence forces under the republic's government had been preparing in advance. The war that went on for ten days (26.06.1991–06.07.1991) ended in a victory for Slovenia. Contrary to Slovenia, Lithuania had adopted a tactic of non-violent resistance and, thanks to a favourable run of events, won its struggle as well. The struggle for Lithuania's independence was the same as the struggle for independent Estonia, which had adopted a rather opportunistic ("pragmatic") stance and would postpone the declaration of its newly restored independence until the putsch of August 1991 failed.

In their immediate exit from communism, none of the two countries had the set of institutions that a sovereign state must have (i.e. armed forces, currency, border guard services etc.) and all of them were forced to develop them in parallel with market reforms. Besides, they had all been tightly integrated into economic organisms that collapsed together with their host states. Contrary to Poland or Hungary, where the economy was national in communist times already, the economies of Slovenia and Lithuania were regional rather than national.

The problems that Slovenia's economy was addressing after the collapse of Yugoslavia were not easier but most likely even harder than those that Baltic countries were facing. "Sales to the other republics of former Yugoslavia fell from US\$ 6.7 billion to only US\$ 1.5 billion in 1992" (Damijan 2004: 336). As a result to the outbreak of military activities, economic relations with partners in other republics of former Yugoslavia (with the exception of Croatia) could not go on, even on a barter basis, and Slovenia had to find alternatives for the markets it had lost even faster than the Baltic countries (in Lithuania the breakthrough only took place after the 1998 crisis in Russia). Similar to the Baltic States (but differently from Hungary, the Czech Republic and Slovakia), Slovenia faced hyperinflation,

²⁹ See <<https://www.cia.gov/library/publications/the-world-factbook/geos/si.html>> 02.04.2011.

leaving communism under conditions of extreme macroeconomic instability. It had to pay a portion of the national debt of the former Yugoslavia. Quite differently, the independent Baltic countries were free from the burden of the foreign debt of the late USSR, which passed to Russia.

Under the communist regime, both Slovenia and the Baltic countries were parts of a nominally (as it was with the Baltic republics and the Soviet Union) or actually (Slovenia and Yugoslavia) federal state, surpassing other regions within the country with the level of their economic development. All three countries were known for being relative “Western” and liberal, even though, for reasons that are discussed in the next chapter, Estonia had inherited more of that “Western spirit” and liberalism from the interwar period and other times than Lithuania. However, when it comes to the social-political sphere, Lithuania’s heritage is more like Slovenia’s rather than that which the Soviet era had left in Estonia. This is the key similarity, which justifies the question of whether the Slovenian way out of communism could apply to Lithuania.

As I have already indicated (see 1.1 and 5.3), the late communist regime in Estonia and Latvia represents bureaucratic authoritarian communism, whereas the Lithuanian variety should be classified as national communism with an admixture of patrimonial communism. The dawning of communism in the Baltic countries also meant the loss of the independence of state. Therefore, many in Lithuania still see the words “communist” as a synonym to “traitor” and “collaborator”. The Lithuanian Democratic Labour Party and the Lithuanian Social Democratic Party are also labelled as such.³⁰

In reply to the accusations that they or their predecessors are/used to be traitors to the nation, the ex-communists of Lithuania point to the social-economic progress of the country under communism and the reclamation of the Klaipėda and Vilnius regions, which was some sort of a compensation for the loss of the state independence. As an apology for the collaboration on the part of their communist predecessors, they appeal to the geopolitical situation in Eastern Europe after 1945, saying that just going with the flow and obtaining as many benefits for the people as possible would have been the smart thing to do back then, as opposed to spilling blood in a hopeless fight of resistance against the imperialism of communist Russia. And finally, they point to the Lithuanian Communist Party’s divorce from the CPSS in December 1989, which deprived Moscow of the main tool of power in Lithuania and opened the road towards the restoration of Lithuania’s independence.

³⁰ In 2001, the ex-communist Lithuanian Democratic Labour Party joined ranks with the “historical” Social Democratic Party of Lithuania and took its name. Since then, most of the top brass and regular members of the Social Democratic Party are former communists.

No matter what one might think of such political rhetoric, it has to be admitted that it was good enough to convince a large portion of the electorate in Lithuania. Ex-communists won the second free election in Lithuania in 1992. After that, they managed to return to power in 2001 and maintain their governing position until 2008 as the main political force in the left-of-centre coalition. During that period, its possibilities for action were limited by the need to mind the conditions from their partners within the coalition. However, in 1992–1996 ex-communists enjoyed the absolute majority at the parliament. Algirdas Brazauskas, their leader was elected President of Lithuania in 1993, and most of the judges in the Constitutional Court favoured the party as well. This was the highest degree of power that ex-communists had in any country where they managed to rise back to power after winning a second relatively free election. They had to form coalitions in Poland and Hungary. The same thing happened in Slovenia as well.

Just as in Lithuania, Poland and Hungary, it was also in Slovenia that the political power of ex-communists resulted from the national communism heritage, only in this country it came with less communist neo-patrimonialism, which was a distinctive feature of national communism in Lithuania. Differently from Lithuania, the political system of Slovenia during the first post-communist decade included two influential ex-communist political parties instead of just one, which can conditionally be dubbed ex-communists and ex-members of Comsomol. Ex-communists formed the United List of Social Democrats, a party that was the successor of the League of Communists of Slovenia. Ex-members of Comsomol made the Party of Liberal Democracy of Slovenia, which had descended from the Young Communist League of Slovenia (the Slovenian Comsomol). In the first relatively free election of 1990, it competed with the “mother” communist union as a separate political power.

With certain reservations, the United List of Social Democrats (which was joined by several smaller left-wing groups) can be considered the equivalent of the Lithuanian Democratic Labour Party, and the Slovenian Liberal Democracy (SLD) can be seen as the counterpart of the informal group of entrepreneurs, media moguls and high-ranking state officials of Lithuania who are called by some political observers here in Lithuania *valstybininkai* (“statesmen”). The Slovenian “*valstybininkai*” include or have included³¹ such prominent Slovenian political figures as Janez Drnovšek (Slovenia’s President from 2002 to 2007 and the country’s prime minister during the period of 1992 to 2002, with a break in 2000) and Milan Kučan (the last leader of the League of Communists of Slovenia (1986–1990) and Slovenia’s President (1992–2002)).

³¹ In 2006, Drnovšek left the LDS and created a new political power – the Movement for Justice and Development (*Gibanje za Prvičnost in Razvoj*).

After democratization kicked off, a lot of new anti-communist and anti-(ex)-communist parties sprung up in Slovenia, just like in other post-communist countries (see Harris 2002; Rizman 2006; Zajc 1998). On April 8th, 1990, Slovenia's first free parliamentary election was won by the Democratic Opposition of Slovenia (DEMOS), a coalition of anti-communist political forces, with 55% of the votes. It provided the basis for the government under Christian Democrat Lojze Peterle (born in 1949). However, it was ex-communist Kučan (born in 1941) who was elected president by a 58.6% vote.³²

DEMOS was the Slovenian equivalent for the Reform Movement of Lithuania, the People's Front of Estonia and other mass movements that operated in the situation of the extraordinary policy of the exit from communism in many countries (Zajc 1998: 284). However, contrary to the Reform Movement of Lithuania, which had some of the traits (the groups of the Reform Movement of Lithuania that were established at enterprises and offices attempted to control the activities of administration) resembling the structure and activities of its main political partner and opponent (the Communist Party of Lithuania) in 1988–1992, DEMOS was merely an electoral confederation of developing political parties. The anti-communist coalition was fragile. It broke up as early as the spring of 1992, and Slovenia spent nearly ten years under coalition governments dominated by ex-communists; it was they who carried out the reforms that transformed the communist system into the only CME in the post-communist world.

Many of those governments were presided over by Drnovšek (1950–2008), who was both the most prominent and symbolic figure on the political stage in Slovenia. In 1989, he prevailed in the first democratic election, arranged by the Slovenian communist government, for Slovenia's representative to the collective presidency of Yugoslavia.³³ The voters had several alternative candidates representing the same political power – the League of Communists of Slovenia – to choose from. The very same year, he became the last President of Yugoslavia.

The political career of Drnovšek (incidentally, just like that of Kučan) symbolizes the gradualist way of the exit from communism that Slovenia had followed: such political longevity of a political leader who used to hold top-ranking positions at the end of the communist era is simply inconceivable in any other Baltic or Central European country. The only comparable figure could be Brazauskas of Lithuania. However, in this case personal continuity carries no symbolic meaning, as the restitutorial/imitational orientation of transformation in Lithuania

³² Although Slovenia's president is elected via direct voting (just like in Lithuania), the president's legal powers are so limited that Slovenia should be considered as a parliamentary democracy while Lithuania is semi-presidential.

³³ It included representatives of all the Yugoslavian republic. One of them (by rotation for a one year term) served as President of Yugoslavia.

never faltered even after ex-communists returned to power in 1992; they had no original ideas for reforms.

So, what was the manifestation of the innovative orientation of post-communist transformation in Slovenia? First of all, the reformers of Slovenia were concerned more about finding ways to use individual institutions from the socialist era to build capitalism, making new combinations of them rather than destroying lots of things fast. They realized that post-communist capitalism is inevitably to be built not only on the ruins of socialism, but out of them as well (cp. Stark and Bruszt 1998). In some cases, they managed to design new, unprecedented and at the same time viable institutions. “The contribution of socialist doctrine can be traced in the definition of Slovenia as a welfare state, with the right to strike, the freedom of trade unions to exist and to organize, the rights of workers to participate in workplace decisions, and the duty of the state to provide suitable housing and a clean and healthy environment” (Borak and Borak 2004: 55). On top of that, they, in many cases, were able to find sequences and combinations of decisions that allowed them to minimize the negative side effects (economic and social cost) of the necessary reforms.

In introducing national currency, the tolar, in the autumn of 1991, the Bank of Slovenia managed to stop the hyperinflation without any assistance from international financial institutions. This was done with tools of active monetary policies rather than squeezing the economy into the girdle of a fixed foreign exchange rate. The latter method to achieve macroeconomic stability (which was adopted by the Baltic States) deprives the state of nearly all levers of macroeconomic regulation, with the exception of fiscal policy. “The creation of the monetary system remains so far an unchallenged success of the (Slovenian. – Z. N.) academic economists who commanded the first Board of Governors of the Bank of Slovenia, and who successfully rejected foreign advice and applied their own concepts” (Mencinger 2004: 81).

Creative policy of privatization ought to be addressed in detail as it is a controversy even among Slovenian economists (see 6.4). Its main characteristic was that 40% of the equity in a firm under privatization would be passed on to three funds controlled by the state: the Pension Capital Fund (*Kapitalska Družba*), the Restitution Fund (*Slovenska Odškodninska Družba*), and the Development Fund of Slovenia, which later was transformed into the Development Corporation of Slovenia. This last institution (liquidated in 2002) was put in charge of restructuring and ensuing privatization of the loss-making enterprises. 20% were distributed among employees. The firm itself – the council of its workers and sometimes the board of directors – had to decide whether the remaining 40% would be sold to insiders for investment vouchers, or publicly auctioned off to outsiders. Many companies opted for the former. As a result, the majority of companies ended up

in the possession of insiders and the state, which essentially meant that the pre-transformation tradition of “workers self-management socialism” lived on (see Feldmann 2006; Mencinger 2004; Simoneti, Rojec and Gregorič 2004).

This consequence of the Slovenian way of privatization has been the most criticised both by experts from international financial institutions, and the neo-liberal economists of Slovenia. They were in favour of selling companies to foreign capital, which would bring technological renewal to production processes. Foreign capital only started making its way to Slovenia’s economy after the year 2000, when the country had liberalized some of the sectors that were previously controlled by the state (the banking sector in particular) just before it joined the EU (see Bandelj 2008; Lindstrom and Piroška 2007).

On the other hand, some analysts of post-communist transformation believe that selling assets that have been accumulated over several post-war decades to foreign corporations at comparatively low prices is one of the most dubious aspects of privatization and post-communist transformation in general. So, having calculated budgetary income from sales of state capital assets to foreign firms in Hungary, where privatization was heavily based on foreign capital, prominent privatization researcher Kazimierz Poznanski made a conclusion that the assets were sold at a mere 10% of their fair value (Poznanski 2001: 332).

Not every analyst agrees that the growth of economy is promoted by just any kind of foreign capital investment made under any conditions, pointing to the fact that in some circumstances such investments might even have a dampening effect. Jože Mencinger, one of Slovenia’s major economists says that this is what happened when foreign investments in post-communist were not made as “green field” investments but rather were used to acquire companies under privatization. “FDI were predominantly acquisitions related to massive and often politically motivated privatisation. Acquisitions were not automatically investments in real assets, as proceeds of the sales were spent on consumption and imports, as confirmed by the absence of relationship between FDI and gross fixed investments and the positive relation between FDI and the current account deficit developing into foreign debt” (Mencinger 2003: 502).

The methods behind Poznanski’s calculations could be brought into question because privatization took place without there being an operational capital market, which is the sole instance capable of finding out the “true” values of companies under privatization. Yet his other arguments, such as that “giving away” the country’s production capabilities to foreign capital might also have negative implications for its further social and economic development, are noteworthy. We deal with such consequences not only when foreign companies purchase businesses in post-communist countries to close them down and take over their share of the domestic market, or to take a potential competitor out of the equation.

Privatization of a company driven by the goal to continue production for export purposes, when the existing relations between the company and other businesses within the country are substituted with vertical ties as the company is made part of an international supply chain, integrated by common owner (TNC), does little to benefit the development of the national economy as well.

With the role of foreign capital, and the so-called “hot money” increasing, the country becomes more vulnerable to exogenous shocks like the 1997 Asian crisis, possibly the benchmark of its kind. As a result of panic, foreign capital withdrew regardless of losses after the host countries had lost their former reputation as safe havens for investment. In the most recent economic crisis, the negative side effects of a strategy for economic development by the reckless focusing on foreign capital were exemplified through the experience of Ireland. Even in the case when restructured and technologically upgraded companies operate successfully, most of the profit is transferred abroad and not reinvested. Imports of foreign capital also mean imports of capitalists. The formation of the class of national capitalists (or the “economic bourgeoisie”) is weak and slow.

In spite of the weak spots of privatization in favour of insiders, it still offers better conditions for the national economic bourgeoisie to take shape without preventing foreign capital from entering the capital market at a later time, once the capital market is up and running. It ensures that property being sold is evaluated more adequately, which allows selling it at a fair price instead of just giving it away to foreign owners, which was what actually happened in the beginning of the first post-communist decade, when the supply of property under privatization skyrocketed on the international market, knocking down its prices. Foreign owners have few (if any) incentives to invest into long-term sustainability of national economies. They relocate production sites more easily than firms owned by indigenous owners.

Somewhat paradoxically, the Slovenian “ex-communist” gradualism may be unique among post-communist countries in succeeding in creating normal national “capitalism with capitalists” instead of “capitalism without capitalists” in Central Europe or “capitalists without capitalism” in Russia, according to the perceptive description by Iván Szelényi (see 3.3). This may be the most important side of the Slovenian innovative approach to market transition. No other post-communist country has so many competitive indigenous firms. More research is needed to find out whether this happened thanks to or despite of the relatively unfriendly Slovenian policies towards FDI (see Rugraff 2008). Short-term disadvantages due to the relatively small stock of the inward FDI may be overcompensated by the long-run advantage of having a strong national capitalist class.

In the meantime, we can say that during the first post-communist decade the Slovenian economy managed to secure a relatively high level of capital accumulation and innovation using just its own domestic sources as witnessed by the fact that during that period it both maintained its competitive strengths and even gained a new edge in that regard. According to the findings of the comparative analysis of the foreign trade balances by Ramūnas Vilpišauskas, Estonia had its comparative advantages in the industry of wood, textile and shale. Lithuania's advantages lay in the production areas like apparel and accessories, oil products, power, wood, textile, "power equipment and instruments not otherwise classified" (Vilpišauskas 2001: 140). Slovenia had its own advantages both in the fields that were typical of Eastern European states, like the industry of timber and apparel, and also in the areas of electrotechnics, chemistry (especially pharmaceutical) and engine production (see Buchen 2007: 80–82). It was on this basis that I have classified Slovenia as a world capitalist system core country rather than a semi-core or semi-periphery state.

One can guess that one of the key elements that made the Slovenian economy so strongly competitive was the system of industrial relations, which was consolidated thanks to the Slovenian way of privatization. This system provides incentives for employees to identify with "their own" companies, invest into acquisition of specific skills allowing the companies to compete with some success in terms of quality on the markets of comparatively high-technology products. "If we assume that employee ownership can be an incentive to acquire firm specific skills (Blair 1999), the comparison of Estonia and Slovenia as opposites implies potential transitional institutional complementarities. In this case employee owners could be a functional equivalent (Crouch et al. 2005: 375) to an efficient banking system in a post-communist CME. As seen above, the Slovenian banking sector is not in a position to grant 'patient capital' to companies, whose managers cannot credibly commit themselves to retaining the workforce in economic downturns. Then, the equivalent incentive for workers to acquire firm-specific human capital can be ownership of shares in the company and the accompanying responsibilities" (Buchen 2007: 74–75). The strong position of employees in the management of Slovenian enterprises inherited from the "workers self-management socialism" times helped to prevent the misuse or theft of assets in both private and state-owned enterprises through tunnelling, expropriation of minority shareholders and asset stripping which were endemic in other post-communist states during the first transition decade.

The political transformation of the communist system was even more innovative and ingenious. First of all, this was a unique neo-corporatist modification of representative democracy that I described in the first section of this chapter: Slovenia is probably the only liberal democratic country in the world that has

an upper house in its parliament (National Council (*Državni Svet*)) elected by functional groups of interests. Together with the Economic and Social Council of Slovenia and employer and employee associations, the National Council is part of the system of consultative bodies which makes Slovenia the most deliberative democracy in the post-communist world.

The wide and frequent practice of holding referendums, which during the first decade of post-communist transformation in Slovenia could only be matched by a country like Switzerland, also bears a similarly unique character (albeit only among post-communist liberal democracies) (see Lukšič 2000). According to the Slovenian Constitution of 1991 (Article 90) and the Law on the Referendum and Popular Initiative, there were 4 types of referendums in Slovenia: (1) a referendum on constitutional change; (2) a preliminary legislative (*ante legem*) referendum; (3) a subsequent legislative (*post legem*) referendum; (4) a consultative referendum. The National Assembly can decide on a consultative referendum, but it is not bound by its outcome. A preliminary legislative referendum may be proposed in the period from the day the bill is sent to the National Assembly through to the last stage of the lawmaking procedure. A subsequent legislative referendum can be proposed within seven days of the law being adopted. The National Assembly is bound by the outcomes of legislative referendums if they are called for by at least one-third (30 out of 90) of National Assembly members, the National Council (upper chamber), or by 40,000 voters.³⁴ A proposal put to a referendum is accepted if a simple majority of voters voting at the referendum votes in its favour. Along with vigorous civil society, mass media and strong local governments, frequent referendums qualify Slovenia as the most participatory democracy in the post-communist world.

So much about how Slovenian exceptionalisms are conditional upon the dominance of the innovative orientation of post-communist transformation. Could Lithuania, where ex-communists were politically even stronger than their Slovenian counterparts (who could never do without their coalition partners) in the first decade of post-communist transformation, have become the “Baltic Slovenia” (instead of being the “laggard Estonia”)?

First of all, one has to admit that Lithuanian ex-communists never tried or even considered anything like this. The accession of ex-communists to power that happened in the heat of the reforms did not change the character of reforms, even though they took on some new traits characteristic to the mode of partial reforms, which propelled many post-communist countries to political oligarchic capitalism. No one even thought about taking advantage of privatization in the Slovenian way to reform the pension system or to address the restitution problem

³⁴ In Lithuania, the support of at least 300,000 voters is needed to initiate a referendum.

(that Lithuania has not resolved to this day) in a more constructive manner. After all, instead of returning property, which had been expropriated by communists and could have potentially undergone severe changes in the 50 years, to its owners or their descendants, they might have simply got paid compensation in the form of investment vouchers.

While discussing ways to exit communism, I have already mentioned the intellectual sterility of post-communist transformation (see 2.1). Neither Lithuania nor any other Baltic country has ever produced a philosopher, a sociologist or an economist who has had their work, inspired by their own experiences of escaping communism, earn worldwide recognition. Compared with other revolutionary episodes in Western history that have provided a strong stimulus for intellectual activity, the anti-communist revolutions of 1989 were surprisingly futile intellectually.

Slavoj Žižek (born in 1949) of Slovenia, probably the most widely acclaimed Central European philosopher and sociologist in the world and one of the most influential left-wing intellectuals in his country was most likely the only exception to this rule³⁵. A full decade after the collapse of communism, the intellectual discourse of all Central European and Baltic countries was, and in many cases still is, dominated by right-wing – neoliberal or conservative nationalist – ideas. The reckoning with the communist past is still going on, with the never-ending lustration, which sometimes turns into a witch-hunt, with intellectuals vying to come up with stronger words to condemn the communist era or to draw a symbolic line as if to distance themselves from it with Russophobia (with the exception of the former Yugoslavian republics that were never a part of the Soviet empire).

Žižek can be considered the pioneer and apostle of the post-communist “new left-wing” ideology that is based on the post-modernist way of thinking.³⁶ It stands to express a different attitude, one of bidding an ironic farewell to the communist past that accentuates the communism practice’s internal paradoxes and contradictions which have led to the instability and rapid collapse of the regime. Žižek’s case represents the relative immunity to the radical neoliberal ideology that was a defining feature of the Slovenian public discourse in the first post-communist decade.

It was this kind of immunity that enabled Slovenia to become probably the only post-communist country in Europe where innovative orientation prevailed. Of all the traits of Slovenia’s escape from communism that differentiate it from the post-communist transformation in the Baltic and Central European countries, this feature of its original situation is key. In former countries of national communism like Poland, Hungary and Lithuania, ex-communist political forces acted

³⁵ However, Estonian American Rein Taagepera may be considered as another exception.

³⁶ In the early 1990s, Slavoj Žižek was politically connected with the ex-Comsomol SLD. In 1990 this political force nominated him a candidate to take a post with the Slovenian collective presidency as fixed in the Yugoslavian Constitution (see Parker 2004).

under conditions of neo-liberalism's ideological hegemony. Therefore, when they were in power, they pursued the very same policy of imitational restoration of capitalism as their competitors, the right-wing neoliberal, nationalist or clerical political forces.

In Lithuania, what mattered most when it came to specific issues of reforms were copybook recommendations from international financial organisations. With Slovenia, the situation was totally different. "One should not neglect, however, the impact that academic economists had on the Slovenian model, both indirectly, by participating in public and academic debates and often stubbornly rejecting foreign advice, and also through their direct involvement in the creation of the macroeconomic framework for the new country. The reasons for the stubborn rejection of the Western advice differed. Unlike other socialist countries, SFR Yugoslavia had been an open country; many economists had studied abroad, acquiring a solid understanding of mainstream Western economics, and were therefore not easily awed by foreign advisors" (Mencinger 2004: 76).

The ex-communist governments in other countries of former national communism had no such ideological orientation and legitimation that the ex-communist political forces in Slovenia had guaranteed by the new left-wing discourse, which took shape early on (with the exception of Hungary, where the left-wing intellectuals still remained quite strong and managed to keep their influence). Therefore, they surpassed their right-wing opponents in their predilection for corrupt clannish practices and were unable to design and pursue any policies on their own. In this regard, the situation in Poland and Lithuania was very much similar to that which prevailed in such former patrimonial communism countries as Bulgaria and Romania. Here ex-communists were even stronger in terms of political power yet demonstrated complete intellectual impotence. The Lithuanian market economic reform architects' way of thinking was primarily affected by the scheme of the Marxist political economy, which sees private ownership of production facilities as the key difference between capitalism and socialism. They turned this scheme upside down and thought that the most important thing for the building of capitalism was the fastest possible, as well as universal, privatization of the property of the state and collective farms in particular.

The biggest obstacle in the way of innovative economic and political thinking within the Baltic States was the trauma of the loss of independence after the USSR occupied the Baltics in 1940. Therefore, the escape from communism in these countries took the shape of restitutive revolutions, and the ex-communists of Lithuania still have to make excuses for the role their "parent" Communist Party of Lithuania played when the country lost its independence. Slovenia acquired statehood for the first time in history during the communist era, when the Republic of Slovenia as part of the communist federation of Yugoslavia was created.

In this respect, Slovenia is not like Lithuania but rather resembles Kazakhstan or Kyrgyzstan, where the national statehood only appeared in times of communism. Therefore, communism or even leftism did not or could not gain a connotation of collaboration or betrayal of the nation, the way it happened in Central Europe and the Baltic countries in particular. Even though the communist regime in Slovenia and Lithuania stood for the same type of national communism, ex-communists in Slovenia did not have to bother restoring their reputation for betraying the independence of their state at some point. Independent Slovenia did not need restoring but rather building for the first time in history and as a result there were no dismal nightmares of the past or historical traumas hampering the imagination of left- and right-wing politicians (which is not to say that no such nightmares or traumas existed at all). The Baltic States still connect any leftist policy with “influence from Moscow”. Within the context of political life in Slovenia, any attempts to discredit a political or ideological opponent accusing them of being an “agent for influence from Belgrade” (i.e. of ties with Serbia) would fail.

Just like in the Baltic and Central European countries, the most important issue of the post-communist symbol policy in Slovenia was the accountability of the ex-communists for the post-war repressions done by their predecessors. In Yugoslavia, the first years of communist rule after the war was marked with mass murders, which took on an extremely fierce character in Croatia, where communists slaughtered everyone who had done service in the armed forces of the state of Croatia, which was founded by Ante Pavelić in 1941 with the Germans’ blessing. In Slovenia, communist terror targeted the German and Italian minorities as well as Slovenians who had enlisted in the self-defence squads (*domobranici*) that had been founded in rural areas during the occupation. As the war was coming to an end, some 12,000 fighters that served in these self-defence squads retreated to Austria where they surrendered to British troops. However, Britain extradited them to communist partisans, who then slaughtered them (see Corsellis and Ferrar 2006).

This wound has not healed yet in the historical memory of Slovenians. Nevertheless, the activities of self-defence fighters during World War Two were not really a struggle for Slovenia’s independence, or that of Yugoslavia. The fate that befell the helpers of the Italians and Germans in Slovenia can rather be compared with what happened to the Nazi collaborators in Belgium, France, the Netherlands and Norway where local quislings were also in for payback on a massive scale. Therefore, political issues of historical memory in Slovenia did not provide any reasons for such a wide gap that separated the ex-communist and the anti-communist political forces in Central European and the Baltic countries, making it harder or even impossible for them to cooperate in a constructive way, and to form coalition governments in particular.

Even though the political system in Lithuania was based on an implicit pact between the anti-communist and anti-(ex)-communist forces, ex-communists were in political isolation during the first ten years of post-communist transformation. In the autumn of 1994, Lithuania came very close to a right-wing authoritarian coup. The situation reversed after President Paksas was impeached in 2004, when the Social Democrats and other “traditional” right-wing parties stopped the surge of the right-wing populism wave (see the next chapter).

Even if the ex-communists in Lithuania had had sufficient intellectual capital and political will for innovative economic reforms, they would have turned Lithuania into a “laggard Slovenia” at best: the country would have probably be on a par with Estonia in its macroeconomic indicators after the first decade of reforms, and might have even outshone it with its performance in the social sphere. The reasons for this are the less favourable initial conditions that would have made Lithuania perform worse than Slovenia even if it had followed the “Slovenian” policy of economic reforms. To be more specific, this would have meant the following sequence and pace of economic reforms: the earliest possible macroeconomic stabilization; privatization of the large enterprises under the conditions of macroeconomic stability; de-collectivization based on an economic rather than an ideological scale; an active industrial policy aimed at preserving the country’s manufacturing capabilities; using privatization to tackle the issues of the restitution and pension system reforms.

One could draw a long list of differences in the initial conditions of post-communist economic transformation that disfavoured Lithuania so much that it would have been impossible to implement the Slovenian policy of economic reforms to attain a similar result in Lithuania. The first (and most obvious) thing is that at the time of exiting communism, Lithuania was far less economically developed than Slovenia. In 1990, Slovenian GDP per capita was US\$ 8,317 in constant 2000 US\$, while in Lithuania it was US\$ 4,354.³⁷ Lithuania’s geographical location was less favourable as well (although Estonia was an equal match to Slovenia in this regard). The communist Slovenian (similar to the Polish) agriculture and service sectors were predominantly privately owned. Lithuania’s infrastructure was fully integrated into that of the Soviet Union, while Slovenia had its own electric grid, pipelines, railways and communications. The relative prices on Yugoslavia’s domestic market were not very far removed from the comparable prices on the world market, whereas the prices of resources in the Soviet Union that were set using administrative methods could not have been any further away from world market prices. Therefore, for Slovenian companies the shock from

³⁷ See World Bank 2010. Remarkably, in this year Lithuania was still the richest Baltic republic, because GDP per capita in Estonia was US\$ 3,787 and in Latvia US\$ 3,901.

external liberalisation was not as stark (or even paralysing, as it often happened to be) as it was in Lithuania. I will discuss in more detail two critical differences of the initial conditions of economic transformation disfavours Lithuania.

First of all, the exit point for the economic transformation in Lithuania was an orthodox planned administrative system, in other words – state plan socialism. Slovenia entered CME straight from an economic system that was referred to as market socialism by the contemporaries who used to compare it to the Soviet economic system. Yugoslavian Communist ideologists described it as “workers self-management socialism”. Company managers would be nominally elected by the staff, to which they were accountable. Yet the thing that their career depended on the most was the discretion of the party bureaucrats from the League of Communists of Yugoslavia (which made them part of the communist nomenklatura). Still, they had the power to make decisions on their own. In the Soviet economy, the task of managers was to attain plan targets specified in kind using the resources which were not bought on the market, but supplied by other enterprises according to the encompassing plan. In communist Yugoslavia, their aim was profit maximization by selling their output on the market and buying resources necessary for its production. Therefore, fundamental market institutions did exist, including a two-tier banking system with for-profit financial institutions. Lithuania, just like the rest of the former Soviet republics, had to build those from scratch.

Secondly, even though “market socialism” existed in every Yugoslavian republic, the economy of Slovenia was involved in trade relations with Western countries relatively the deepest. Using cheap raw materials coming in from other Yugoslavian republics (and in this way enjoying federal subsidies), Slovenian companies had to manufacture industrial products of substantial quality for it to compete on the world market in order to make hard currency for the federal budget. Therefore, at the end of the communist period, trade with capitalist countries accounted for a whopping 25% of Slovenia’s external economic relations (Feldmann 2006: 843). The Soviet Union earned hard currency from exports of energy resources and raw materials. The Baltic economies worked to satisfy the needs of consumers in the Soviet Union and communist Eastern European states, while the share of products of Baltic origin sold on Western market could not exceed 2 to 3% of the total production output (Feldmann 2006: 843). However, even such companies were not in direct contact with their Western partners but rather followed the instructions of Moscow based offices in charge of foreign trade.

That is why Slovenian companies were able to penetrate new markets in Western Europe and other countries relatively quickly, although the shock of breaking the economic relations with the rest of the federal republics was even greater in Slovenia than it was in Lithuania. Due to the outbreak of war in Yugoslavia, Slovenia’s economic relations with former republics evaporated right away, whereas

Lithuania's trade with former Soviet republics declined gradually. Even 20 years down the line, Lithuania's economy is still vitally reliant on imports of energy resources from Russia.

Contrary to the directors of companies in the former Soviet Union (and also in Lithuania), their Slovenian counterparts had experience in working within the competitive market environment (including Western markets) and were not that much different from managers of large Western corporations. Even though the Slovenian model of privatization allowed them to actually own "their" companies (just the way it was with their Lithuanian counterparts), such "nomenklatura privatization" usually did not have negative economic effects as the companies ended up in the hands of owners who knew how to do business under a market economy. That is something that happened in Lithuania on much rarer occasions.

Due to all these unfavourable initial conditions, the "Slovenian" policy of gradual market reforms would have fallen short of remedying the transformational recession of the Lithuanian economy and improving trajectories of recovery. At best, such reforms would have led to a capitalist society that by now (i.e. in 2011) would have less poverty, inequality, and social exclusion than there currently actually is in Lithuania. That "Slovenian" Lithuania (or Baltic Slovenia) would be richer (in terms of GDP generated) both than the actual Lithuania and maybe actual Estonia, but would not surpass Slovenia or Central European states.

Such alternative counterfactual Lithuania was already described in chapter 4 and dubbed *Restpactgrad*. Its comparative advantages (comparing it with Estonia and actual Lithuania) would result from the lower extent of deindustrialization. Differently from Slovenia, such counterfactual Lithuania would not be a world capitalist system core country. So there would be no CME in this Lithuania-*Restpactgrad*. Just like Estonia, it would make a part of its semi-core. Yet instead of Weberian-Friedmanian DME it would have the type of capitalist economy that I have called the Weberian-Porterian DME. Lithuania would be less like Estonia but would resemble Poland and Slovakia rather more. Provided, of course that it had managed to attract more inward FDIs. Being richer than Lithuania, Slovenia was able to find local sources of capital for industrial modernization, at least in the first decade of post-communist transformation. The poorer Lithuania would have been unable to do that without any FDIs. After the stock market kicked in, the Slovenian Pension Capital Fund and Restitution Fund gradually sold the shares of companies that were allocated to them under the 1992 Ownership Transformation Act. This would be the best thing to do also for the counterfactual Lithuanian counterparts of these Slovenian institutions. However, Lithuania's conditions would make foreign investors the most acceptable buyers of the shares.

The domination of the restitutive orientation in Lithuania would have become the biggest risk factor for Lithuania on the road of the "Slovenian" gradual

reforms towards success. It made Lithuania's chances of becoming a laggard "Baltic Slovenia" very small indeed. While observing contemporary Slovenia, Lithuanians have no real reasons to believe that they are watching a country that Lithuania could have become, but did not.

6.4. How Slovenia Could Have Become the "Adriatic Lithuania"

As I mentioned in the preface to the second part of the book, there are no such observers in Lithuania at all (with the exception of the author of this book). Lithuania enjoyed the most of Slovenia's attention in 1990–1991, when the country was moving towards independence. Slovenian politicians scrutinized Lithuania's steps to independence, and the reaction of the central Soviet Union authorities and the international community to the declaration of Lithuania's independence on 11.03.1990. After it unilaterally declared its independence on 25.06.1991, Slovenia found itself in a similar position. "Unlike Lithuania, however, Slovenia had its own territorial army and police force" (Bučar 2004: 41). As a result, it managed to win the 10 days War of Independence, whereas for its own independence, Lithuania should be thanking the democratic forces in Russia that caused the coup of August 1991 to fail.

In the beginning of the second post-communist decade, Slovenian analysts turned their eyes towards Estonia. The opinion that Slovenia and Estonia are cases that illustrate the thesis of the varieties of capitalism theory in which similar macroeconomic results can be achieved within different institutional frameworks is not a common viewpoint at all. In 2000–2007, GDP in Estonia (just like the other Baltic States) was growing faster than in Slovenia. The rapid (but not sustained, as it turned out in 2008) growth of Estonia was the reason for neoliberal Slovenian economists (Mičo Mrkač, Jože P. Damijan, Sašo Polanec, Igor Masten, Janez Šušteršič et al.) to claim that the gradual reforms that transformed the Yugoslavian "self-management socialism" into CME had been a mistake which had, allegedly, brought the country to a dead end. "In comparison with fast-moving Estonia, Slovenia clearly exhibits less advantageous prospects for further economic development and growth" (Pezdir 2006: 63; see also Damijan 2004). So, they pleaded for the destruction of CME in Slovenia and development of the "Estonian" neoliberal (Weberian-Friedmanian) capitalism instead. That was the programme of the coalition of right-wing parties under Prime Minister Janez Janša that won the Slovenian elections in 2004 and governed the country until 2008 (see Fink-Hafner 2006; Ramet and Fink-Hafner 2006).

In fact, Slovenia's road from the Yugoslavian "self-management socialism" to CME was not for sure. In chapter four, as one of the possible but really non-existent ways of post-communist transformation we talked about the hypothetical country of *Inovpactshock*, which differs from Slovenia in a way that instead of car-

rying out gradual reforms, it proceeded with shock therapy. Slovenia's chances of becoming *Inovpactshock* were quite real, as in 1990–1992 the country witnessed the competition between two major approaches to economic reform which can be designated by the names of two alternative privatization draft acts, known as the Korže-Mencinger-Simoneti Act, and the Sachs-Peterle-Umek Act (See Mencinger 1994). The first of them was grounded in the gradualist approach to privatization, and the second was prepared with participation of the famous shock therapy doctor Jeffrey Sachs. At this time, Slovenia was governed by the anti-communist DEMOS coalition under Prime Minister Lojze Peterle, who was one of the co-authors of the neoliberal draft. So the launch of shock therapy was quite a real possibility.³⁸

If it had become reality, Slovenia would have been an REC country after the first decade of reforms. However, it would not have developed CME, but rather the Weberian-Friedmanian variety of DME. This is the dream of the neoliberal critics of Slovenian social corporatist capitalism. Yet they are wrong in thinking that Slovenia lost its chance to become the Estonia of the South after it opted for gradual reforms. It was rather that it avoided the danger of becoming the Lithuania of the Balkans.³⁹

Obviously, thanks to the more favourable initial conditions (including innovative rather than restitutive orientation), it would still have surpassed both Lithuania and Estonia by the level of its economy during both the first, and the second decades, just like the actual Slovenia surpasses the Baltic countries now. However, the dynamics of macroeconomic results and the structural changes caused by shock therapy would more resemble its consequences in Lithuania, not Estonia. The similarity of the privatization envisaged in the Sachs-Peterle-Umek Act to that implemented in Lithuania (predominantly distributive privatization by ownership certificates to all citizens), rather than to Estonian privatization (selling to strategic investors from abroad) is not the sole reason for such an assertion.

The most important thing is that in its other initial conditions Slovenia resembles Lithuania rather than Estonia. I have just identified those similarities. First of all, just like Lithuania, Slovenia is a Catholic country and is therefore marked by a higher degree of collectivism than the Protestant Estonia. Second, as a result of its national communism past – something that both Lithuania and Slovenia have in common – ex-communists would still have made it back to power during

³⁸ The resignation of the Vice President of the Government for Economic Coordination Jože Mencinger was probably the most important cause of why shock therapy was prevented.

³⁹ I am conscious about the emotive meaning of the adjective “Balkan” for Slovenians and do not think that Slovenia is part of the Balkans. My point is that Slovenia would be more similar both to Lithuania as it really exists and to move closer to real “Balkan countries” if it had exited from communism in the mode the Baltic States did.

the second parliamentary election in Slovenia. Like in Lithuania, in Slovenia too they would have been forced to continue with “someone else’s” reforms, deforming them towards partial reforms. The transformation recession would have been much deeper than the one that Slovenia weathered in 1991–1995. The end result would have been Slovenia as an Adriatic Lithuania: a semi-peripheric Weberian-Friedmanian capitalist deindustrialized and deskilled country with no solid export basis, financialized growth extremely vulnerable to the ups and downs on the world financial markets, high poverty and social exclusion levels.

Counterfactual Weberian-Friedmanian Slovenia would have been closer to Estonia than Lithuania had an anti-communist revolution taken place in Slovenia. In that case, Slovenia would have become *Inovrevolshock* – an Adriatic Estonia, excelling over the real Estonia (but barely over the real Slovenia, which is *Inovpactgrad*) thanks to its innovative orientation. This would work to Slovenia’s advantage, because for Estonia’s exit from communism the beacon was the restitution of interwar Estonia. As I have indicated before, restitutive programme could not have been practicable in Slovenia. Therefore, the hypothetical anti-communist revolutionists of Slovenia, taking a leaf out the book of Sali Berisha’s followers in Albania and staging a coloured revolution in 1992 or 1993 would have been more oriented towards the future. However, given its national communist past, the realisation of such a revolutionary script in Slovenia was not probable. The same may be said about *Inovrevolgrad*, which would be barely different from actual Slovenia in terms of economic performance. Lithuania, not Estonia, is a Baltic state with a course of post-communist transformation that can be recommended as a subject of study for those neoliberal economists of Slovenia who are sorry about the chance of having a neoliberal Slovenia that was supposedly lost in 1991–1992.

The slower rate of growth of Slovenia’s economy in 2000 to 2007 (compared to Estonia and other Baltic countries) provides no sufficient reason to draw a conclusion about any kind of superiority of the Weberian-Friedmanian capitalism of the Baltics. Some of the states of political oligarchic capitalism grew even faster in these years. The economies of the Baltic countries grew quicker than Slovenia’s economy because the transformational recession in those countries had been much deeper. In 1998, Slovenia’s GDP exceeded the 1989 levels, whereas the same thing in Estonia happened only in 2002 (cp. figs. 5.1 and 6.1). Even if the GDP growth rate in the hypothetical Slovenia, the one with shock therapy (in *Inovpactshock* or *Inovrevolshock*) were to be faster in 2000–2007, that would only be because the “pit” of recession would have been much deeper than it actually was.

Besides, the Baltic countries stand quite a lot further from the technological advancement frontier than Slovenia, which naturally makes its economy grow

more slowly. The increase of TFP in the Baltic States is still based on the exploitation of the possibilities for the catching-up growth, while in Slovenia the increase in GDP is contingent on the genuine incremental innovation. Finally (and most importantly), the critics of Slovenia's neo-corporatist capitalism did not (or did not want to) see that the growth in the Baltic States during the second post-communist decade was driven by the speculative real estate boom and did not contribute to the development of the export capabilities. The crisis that started in 2008 should have made the situation clear even for the biggest neoliberal "Estophiles" in Slovenia, because of all the new EU members, it hit the Baltic States the most, while the Slovenian economy was one of the most resilient to the crisis among EU states.

That does not mean that Slovenia's economy is in perfect condition or that the CME institutions in Slovenia do not require any reforms. The Slovenian manufacturing sector may need restructuring (see Rojec et al. 2004), but similar problems are faced by the manufacturing sector in all CME countries now under competitive pressure of newly industrializing countries. My points are that (1) gradualism is one of the causes why Slovenia has a vigorous national manufacturing sector capable of endogenous incremental innovative upgrading, instead of losing it as happened in Lithuania. (2) Preserving the coherent set of CME institutional arrangements and following its national path of adjustment to the challenges of international competition is a more promising long-term strategy than introducing the selected LME institutions into the CME framework or attempting to dismantle it in a radical way. This (pace Šušteršič 2008)⁴⁰ means the superiority of gradual innovation in the institutional framework favouring incremental technological innovation over radical change, because this would mean transgressing path dependence in the development of Slovenian capitalism.

I will close with a few remarks on the prospects of the Weberian-Friedmanian capitalism in Lithuania, comparing them with those in two extreme cases of the post-communist REC in Europe. The variation in these prospects may transpire in the map of the European regional innovation performance groups (see fig. 6.8). According to the measurement of the differences in the regional performance by the set of indicators of the European Innovation Scoreboard⁴¹, Slovenia is the only post-communist country belonging to the second-rank (medium-high) innovators in the EU, performing on a par with most of the older EU members. Estonia belongs to the third rank, while Lithuania is a fourth-rank innovator.

⁴⁰ Šušteršič favours neoliberal revolution in Slovenia.

⁴¹ This is an instrument of the European Commission, developed under the Lisbon Strategy for a comparative assessment of the innovation performance of EU Member States.

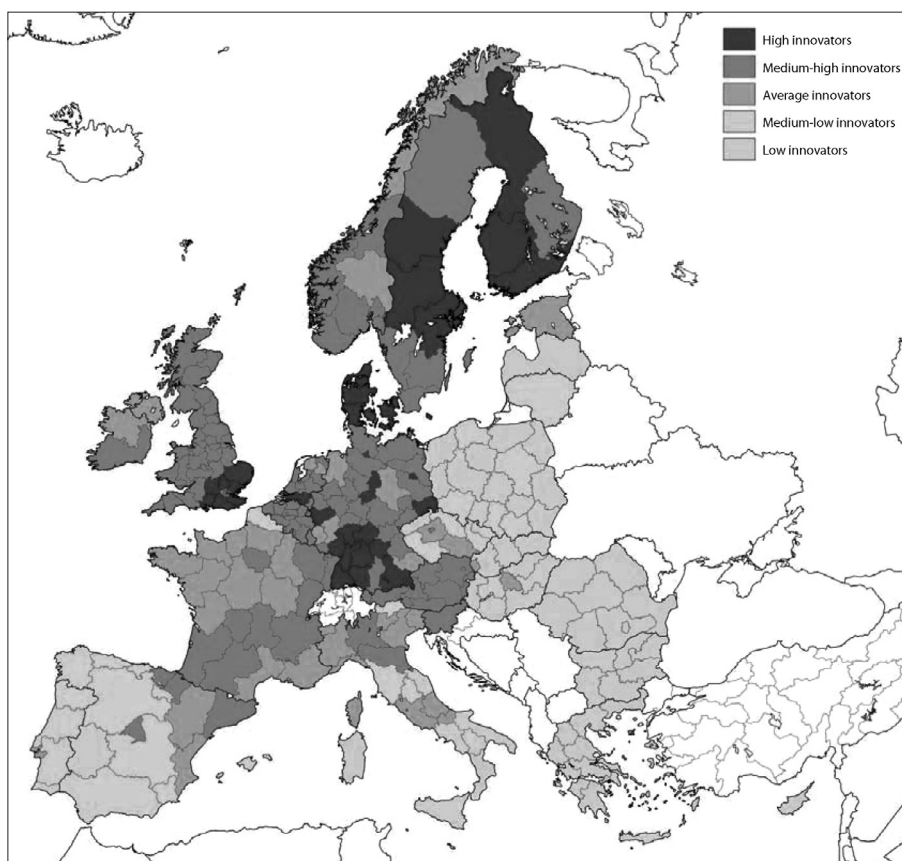


Figure 6.8. European regional innovation performance groups in EU states. Source: Pro Inno Europe. *European Innovation Scoreboard (EIS) 2009. Comparative Analysis of Innovation Performance* (Pro Inno Paper No. 15), 35.

The methodology of the innovation performance measurement of the European Innovation Scoreboard may not sufficiently differentiate between the disparities in the capability for genuine innovation (that for the world), displayed by the world capitalist system core countries, and the disparities in the absorption capability of the semi-core and semi-periphery countries. However, the findings of measurement seem to correctly reflect the relative standing of Slovenia and the Baltic States. While Slovenia faces the challenge to consolidate its position of a core country by moving into the group of high innovators, Estonia still has a leap forward into the core ahead of it. “The Baltic republics seemed to have reached a dead end in their growth strategies, as the speculative boom was not likely to be repeated in the region in the foreseeable future” (Myant and Drahokoupil 2011: 330). This statement by Martin Myant and Jan Drahokoupil seems to be pessimis-

tic for Estonia. The famous “Tiger leap” (*Tiigrihüpe*) project and the Skype technology from pre-crisis years are emblematic of the innovation capabilities of this small country with an outstanding reputation in international financial circles. This reputation may help Estonia to find its niche specializing in the knowledge-intensive higher added-value services (mainly in IT and finance), outsourced from neighbouring Nordic countries.

However, such a niche seems too small to host all three Baltic States. Lithuania’s chances in the inter-Baltic competition for a place in this niche seem the worst because of its geographic location and lower reputation in international finance. Differently from Estonia, the country faces the challenge of defending its place in the world capitalist system’s semi-periphery. For simple light products (see 3.2) this is increasingly difficult because of the tightening competition of the Asiatic states and the former Soviet Union. In the production of the heavy simple products, the competitive advantage is eroded because of the strained relations with Russia. Lithuania is the only post-communist country that has adopted a law, which obligates the government to demand compensation of damages done by the occupation and communist regime from Russia (according to calculation by Lithuanian experts, some US\$ 82 billion⁴²). Recently, this law was supplemented with new legislation criminalizing the display of Soviet symbols (along with Nazi ones) and denial of Communist crimes on a par with denial of the Holocaust.

At the same time, Russia still holds an actual monopoly on the supply of the main energy resources (the Lithuanian electric grid remains integrated with the Russian grid) and also many raw materials. This monopoly is used by the unreformed Russia for retaliatory price discrimination against Lithuania for its symbolic politics perceived as insulting. To survive under shrinking profit margins, Lithuanian firms shed labour or cut wages. Lithuanian membership of the EU makes exit a more attractive protest option than voicing their grievances for workers, and so Lithuania is a “leading” country in emigration among the new EU members.⁴³ The persistence of these trends for the next decade or two would mean the structural downgrading of Lithuania into a remittance economy in the world capitalist system periphery.

It may seem that such conditional forecast is contradicted by the data about Lithuanian innovation performance (see fig. 6.8). As a matter of fact, relatively high total scores of Lithuania on innovation go back to the performance of this country in the formal higher education. Lithuania is the all-EU leader when it comes to the ratio of people with university education within the age group of

⁴² The Lithuanian government is open to negotiations with Russia about the exact amount.

⁴³ But this may be just simply the resumption of a secular trend, because as of the second half of the 19th century Lithuania became one of the European states with the highest levels of emigration.

20–29. In 2007, this ratio in Lithuania stood at 86 persons per population 1,000 (see Commission of the European Communities 2009: 61).⁴⁴ In formal economic terms, Lithuanian higher education system is the most efficient in the EU, as one university or college graduate is educated at the lowest cost. However, most college graduates major in social sciences. Such education qualifies them to later become lawyers, managers, economists etc., but this does not mean that the majority of them find and take such jobs. This is not the supply of labour to match the demand of the industry and services sector of Lithuania, a country that is still relatively technologically backward. On the other hand, such general human capital accumulated by the Lithuanian youth is not of the kind that would make this Baltic country the promised land for industries grounded in radical innovation. For such industries to take root, the supply of the labour force with general education in mathematics, computing and natural science is more propitious. However, the higher education that the plurality of Lithuanian youth chooses may be optimal for those with life plans with a new start in emigration. So the record performance of Lithuania in emigration may be related to the “over-education” of its workforce.

The script of peripheric Weberian-Friedmanian capitalist Lithuania depopulated by emigration, with its overall payment balance dependent on emigrant remittances, may seem bleak, but it is not. Not only because the difference between “bleak” and “rosy” is contingent on value assumptions. The emergence of the Europe-wide or even world-wide Lithuanian diaspora and depopulation of the country may become the source of comparative advantages in the long run.

In the next two or three decades, the world economy will face the surge of the sixth Kondratieff wave with synthetic biology as the most probable new carrier industry (see 3.1; see also Tiits et al. 2006: 29–50; Norkus 2010b; ETC Group 2010). New technological revolution will embrace an energy revolution, including substitution of fossil carbon fuels by biofuel produced out of biomass (see ETC Group 2010: 6–14). Among the Baltic States, Lithuania may be the most attractive location for transnational biotechnological companies. Due to the relatively cold climate (which, however, is expected to grow a lot warmer in the coming years), Lithuania is unable to compete with the tropical countries in the output of biomass production. However, thanks to its geographical location (proximity of the most advanced European states), lower density of population (which could decrease twofold in the next 20–30 years), it might become one of the centres for bioenergetics in Europe. The success of two Lithuanian modern biotechnology companies – Fermentas Ltd and Sicor Biotech that at some point branched off the

⁴⁴ For Latvia this number was 77, Estonia (62) and Slovenia (58) which are all close to EU-27 average (59).

Vilnius-based biotech institute of the Soviet Union – on the international scene could become the harbinger of the “green Lithuania” that is already arriving (see Frank 2008; Giedraitis et al. 2009).⁴⁵

Having bought land from farmers who are withdrawing from agriculture and made huge parcels of it, foreign agricultural concerns will grow immense quantities of biomass that will be turned into biofuel on the spot or used to produce power. These products may become the most important component in Lithuania’s export trade. A big share of exports will consist of “green” agricultural products for the rich in Europe. This sector will provide a playground for the national small and medium-sized agricultural business. So Weberian-Friedmanian capitalism may turn green, making Lithuania a green Baltic Kuwait and so finally bringing prosperity to this country.⁴⁶

⁴⁵ However, it is too early to speak about the biotechnology industry cluster in the making in Lithuania. Both companies are presently subsidiaries of foreign firms, and there is little evidence about the horizontal integration of these high-tech firms into the Lithuanian economy.

⁴⁶ Importantly, high income is no warrant of the advanced position of a country in the structure of world economy. The GDP per capita of Kuwait is very high. Nevertheless, in terms of its economic structure it is a peripheric state.

CHAPTER 7

The Presidential Impeachment as the Stress Test of the Liberal Democracy in Lithuania

Lithuania is not one of those post-communist countries that are lavished by political scientists' attention.¹ It's no wonder that the developments in larger countries – Poland, Hungary, Czech Republic (not to mention Ukraine and Russia) – are closely observed and researched. Small countries only come into focus when and if they are deemed as “problem cases”. However, this “problem case” status may mean different things. Firstly, violent conflicts within countries may have adverse effects on their neighbours. Because of them, neighbouring countries can be inundated by refugees, and their international communications can be interrupted. The wars in the former republics of Yugoslavia may serve as an example. Secondly, a small country can become a problem case because of its foreign policy. Conflicts over borders may be case in point. In the interwar time, Lithuania was one of the most restive states in Europe because of its conflicts with Poland over Vilnius, and with Germany over Klaipėda (Memel). In the post-communist world, for the same reasons international observers cannot take their eyes off of Georgia who is involved in a seemingly hopeless struggle with her giant neighbour Russia over Abkhazia and South Ossetia, and therefore perceived in some quarters as one of the threats to stability in the Caucasus. In a somewhat similar situation (but lacking so many powerful friends) was little and weak Lithuania in interwar Eastern Europe.

Post-communist Lithuania does not have any territorial disputes with its neighbours and has the reputation as one of the most stable countries in the world. However, this does not mean there were no episodes and features which would make it an extraordinarily interesting subject for political science. This last chapter is about one such exceptional episode in Lithuanian politics. Lithuania is the sole democratic post-communist country, which has had a popularly elected state president removed by impeachment. I will focus on three questions: (1) why im-

¹ One of the few exceptions is professor of political science at Creighton University (U.S.) Terry Clark. Lithuania is a favourite case in his research in comparative politics. See e.g. Clark 2002; Clark and Pranevičiūtė 2008; Clark and Prekevičius 2003; et al.

peachment happened in Lithuania, but not in some other Baltic country, or generally, in some other post-communist liberal democracy? (2) Did the presidential impeachment endanger the consolidation of liberal democracy in Lithuania? (3) Why the perceived quality of democracy did not improve much (as was expected in this country) after impeachment? The first question will be tackled in the first two sections. The other two questions will be discussed in the sections 3 and 4.

7.1. Populism and Perils of Semi-Presidentialism in the Baltics and Central Europe

All three Baltic States entered their second decade of their re-established independence with a record of pendulum-like movements of electoral success and failure of the political parties, which suggested the emergence of the “normal politics” characteristic for consolidated democracies. Such a pattern of electoral success and failure was most clearly distinguishable in Lithuania, providing some analysts with a reason to describe this country as the most advanced among the Baltic States in its political development (see e.g. Pettai 2004). Defeated in the election of 1990 by the catch-all independence movement, the Reform Movement of Lithuania (*Lietuvos Persitvarkymo Sąjūdis*), Lithuanian national communists came back to power as the ex-communist Democratic Labour Party in 1992, losing again in 1996 to the Conservative Party which united in its ranks the core membership of the former *Sąjūdis*. In 2000, ex-communists together with their election coalition partners partly repeated their success of 1992.

Somewhat less clearly, such pendulum movements could also be observed in Estonia, where the main cleavage was not between the ex-communist party and the successors to the umbrella independence movement. The reason was the internal split in the independence movement itself, which happened also in Latvia. In Estonia (and to lesser degree in Latvia), the emerging party system crystallized along the line separating the right and right-of-centre parties that were successors to the Citizens Committees movement, and left-of-centre parties whose leaders came from the core of the former Popular Front (*Rahvarinne*) which was the Estonian equivalent of Lithuania's *Sąjūdis*. The Citizen Committees movement was radically restorationist in its orientation, viewing Soviet institutions as illegitimate and considering the interwar Estonian state still existing as a legal entity. The Popular Front took control over Soviet institutions after winning the election in March 1990 and calculated using for the re-establishment of independence the article in the Soviet constitution allowing for the self-determination (including the secession) of the union republics.

The failure of the August 1991 coup in Moscow opened the door for the restitution of Estonian and Latvian independence along the lines of the restorationist

philosophy of the Citizens Committees movement. Its successor rightist parties won the election to the Estonian parliament (*Riigikogu*) in 1992, while the offspring parties of the former Popular front were favoured during the second *Riigikogu* election after the re-establishment of independence in Estonia in 1995. Swings of the electoral pendulum in Lithuania were ahead of those in Estonia by one election (to remind, in 1996, rightist parties celebrated their comeback in Lithuania), but the sequence was basically the same: the 1999 *Riigikogu* election was won by the right-wing parties. The picture was more ambiguous in Latvia, where in 1995 voters gave their votes to newcomer populist parties, instead of favouring the losers of the election in 1993. They prefigured the pattern of electoral behaviour that became common in other Baltic countries in the next decade.²

In all three Baltic States the first years of the new millenium witnessed the rise of new successful populist parties campaigning under the slogan of “new politics” (see Sikk 2006).³ During the October 2000 election to the Lithuanian *Seimas* there were two successful newcomers: New Union (Social Liberals) of the former Prosecutor General Artūras Paulauskas and Liberal Union of Rolandas Paksas, who had defected from the Conservative party that had formerly made him Mayor of Vilnius and then Prime Minister. Paulauskas won 19.6% of the nationwide votes by party lists, and Paksas was supported by 17.25%. Two years later, in October 2002 the Latvian *Saeima* election the newly founded New Era party led by the former president of the Bank of Latvia Einars Repše won 24% of votes and 26 seats in the 100-strong parliament, becoming the country’s strongest parliamentary party. In March 2003 in the Estonian *Riigikogu* elections, Res Publica party, initially promoted by the famous Estonian-American political scientist Rein Taagepera and then led by the former General Accountant Juhan Parts won the support of 24.6% of the electorate, sharing the position of the strongest party in parliament with the Centre party (both had 28 seats in the 101-strong parliament).

The newcomers championed law and order, transparency, open and accountable politics, and the fight against corruption. They are difficult to classify in terms of the traditional left-right axis. According to expert opinion the Estonian and Latvian cases should be described as centre-right (Sikk 2006: 140–153). From the two Lithuanian cases, this description may seem to be adequate for Paksas’ Liberal Union, while the Social Liberals of Paulauskas can be described as centre-left. However, Paksas’ alliance with the Liberals, who are known as the Lithuanian party most committed to the free market ideology, was a short-lived one. After exploiting his

² This account contains many simplifications. For perhaps the best analytic account of the Baltic electoral history during the first post-communist decade see Pettai and Kreuzer 1998 ; Kreuzer and Pettai 2003.

³ Vaidutis Laurėnas is the Lithuanian author who discussed this phenomenon in the most penetrating way. See Laurėnas 2004; 2005; 2006.

personal popularity to become the third strongest *Seimas* party, the Liberals ousted Paksas from the leadership. He founded a new Liberal Democratic party (later renamed the Order and Justice party) that helped him win the presidential election in 2003. The next year, Paksas was removed from the President's office by impeachment procedure. A detailed account of these events follows in the next section. The Paksas fallout was used by the Labour party of Viktor Uspaskich, an ethnic Russian who immigrated to Lithuania in 1987 and made a fortune in gas import and food processing businesses. In the *Seimas* election of October 2004, Uspaskich's party won 28.44% votes and 39 mandates in the 141 seats strong *Seimas*.

Like Paulauskas' Social Liberals, the Labourists of Uspaskich can be classified as a more centre-left than centre-right party. Both parties attracted foremostly the former voters of the ex-communist Lithuanian Democratic Labour Party. Through the merger with the historical Lithuanian Social Democratic Party and thanks to the personal authority of their leader Algirdas Brazauskas, the ex-communists had established themselves by early 2000s as a solid social democratic party and a member of Socialist International. However, for various reasons they lost a significant part of their electorate to the newcomer centre-left populist parties.⁴ Paksas' voters were mainly disappointed voters of the Conservatives and other outspoken rightist parties. The proportions of votes distributed between Paksas' Liberal Democrats (11.36%) on the one side, and Labourists of Uspaskich (28.44%) in October 2004 provide information about the relative strength of centre-right orientation in comparison with the centre-left among Lithuanian populist parties. In Lithuania, the centre-left orientation is stronger, while in Latvia and Estonia the opposite is true.

All leaders of the newcomer populist parties managed to become members of the governing coalitions and even prime ministers. Einars Repše served as Prime Minister of Latvia in 2002–2004, Juhan Parts of Estonia in 2003–2005, and Paksas in 2000–2001. After some time, they were all outmanoeuvred by their coalition partners ("traditional" parties) and discredited by mass media that were mostly hostile to newcomers, stigmatizing them as populists. The next elections in Estonia (2007) and Latvia (2006) were more successful for the traditional parties, with some of them even managing to engulf the newcomers via merger (as the national conservative party *Isamaaliit*⁵ did with Res Publica in Estonia). The rise, domestication, neutralization or isolation of the populist parties in the Baltic States can be interpreted as episodes in the political development crisis that took place in all

⁴ For a plausible analysis of these reasons see Ramonaitė 2007.

⁵ This party emerged in 1995 out of the amalgamation of the Estonian National Independence Party and the National Coalition Party *Isamaa*, which in its turn was born out of the merger of four electoral cartel parties. *Isamaa* was core party in the ruling coalition in 1992–1995 (see also 5.3).

three Baltic States in and around (just before and after) the year 2004 when they joined NATO and the EU. In Lithuania, this crisis was most severe, culminating in the presidential impeachment of 2003–2004.

Importantly, the populist wave phenomenon was not unique to the Baltic States, but overwhelmed many more new liberal democracies in Central Europe. The most important cases are Poland and Hungary that share with Lithuania the legacy of national communism and the record of the political success of an ex-communist party during the first post-communist decade. Poland was swept by a populist politics wave in the year 2005 which brought double electoral success (victory in the presidential and parliamentary elections) to the Polish equivalent of the Paksas Order and Justice party – Law and Order (*Prawo i Sprawiedliwość*) party, led by the twin Kaczyński brothers. In Hungary, the populist right won decisive victory only in the 2010 spring general election that brought victory to the centre-right *Fidesz* party and made the radical right *Jobbik* party the nation's 3rd largest party.

Remarkably, the wave of right-wing populism spared Slovenia. Although in 2004, the ruling ex-communist Liberal Democracy of Slovenia suffered severe electoral defeat, however, the winners were not populist right-wing newcomers, but its older opponents on the right. The right-wing coalition under Janez Janša from the Slovenian Democratic Party that ruled Slovenia until 2008 did not include any populist parties. Therefore, Slovenia is excluded from the selection of cases under comparison in this chapter.

Not all analysts consider the Law and Justice Party in Poland as populist. Unambiguously populist are the two coalition partners of this party in 2005–2007. The first of them was the League of Polish Families (*Liga Polskich Rodzin*) under Roman Giertych that was formed in 2001 and collected the votes in the ultra-conservative Catholic milieu. The other one was the Self-Defence of the Republic of Poland party (*Samobrona Rzeczypospolitej Polskiej*) under Andrzej Lepper, popular among sections of Polish farmers and in small towns with high unemployment rates. These parties are anti-Semite and fiercely Euro-sceptic, going as far as to describe the European Union as a “communist plot”. The Law and Justice party is only mildly Euro-sceptic. However, all of them shared anti-establishment rhetoric based on the contraposition of “us” (common folk) versus “them” (mainly ex-communist elite), which is the most reliable distinguishing mark of the populist political forces. Therefore, the Kaczyński twins party should be classified as populist (at least in the time of its successful bid for power in 2005–2007).

In Estonia and Latvia the rise and domestication of right-wing populism did not bring any changes in the existing cleavages and alignments. The ethnic divide between the indigenous Estonian population and the Soviet-time immigrant Russophones remained paramount, and the dominance of the national-conservative

and neoliberal-cosmopolitan trends in the social imaginary was only strengthened. In Poland and then in Hungary, the political victories of the right amounted to the cancellation of the pact between the ex-communist and anti-communist elites, which was the foundation for the political system in these former national communism countries for more than a decade.

The Kaczyński twins founded *Rzeczpospolita* IV, grounded in the thorough and comprehensive lustration of the ex-communist cadres. The *Fidesz* leader Victor Orban used the two thirds majority in the Hungarian parliament to promulgate a new constitution, and thereby repeating the Kaczyński brothers feat. Among all the right-wing populist leaders of the second post-communist decade, Rolandas Paksas was least successful. The Presidential career of his Polish counterpart Lech Kaczyński ended on April 10th, 2010 with his death in a Polish Air Force plane Tu-154 crash in Smolensk. He was laid to rest in Wawel Cathedral, with a secure place among Polish kings and national heroes for the coming centuries. The former stunt pilot Paksas was removed from office on April 6th, 2004 by the Lithuanian *Seimas* which impeached him on violation of the Lithuanian constitution. Even if, in 2006, he became the first Lithuanian pilot to circuit the globe in a one engine motor plane, this did not improve his reputation as the greatest failure and loser among the first rank politicians in post-communist Lithuania.

The success of impeachment was secured by the close collaboration of the ex-communist party and their former arch-rivals the Conservatives who were eager to punish the defector Paksas. The Lithuanian Conservatives (Homeland Union) with Vytautas Landsbergis as honorary Chairman remain Lithuania's strongest right-wing party, comparable with Civic Platform (*Platforma Obywatelska*) under Donald Tusk in Poland and and Pro Patria (currently Union of Pro Patria and Res Publica) under Mart Laar in Estonia. In 2008, the Conservatives won the *Seimas* election and built a coalition government under Andrius Kubilius that ruled Lithuania during the recent economic crisis. Differently from other former national communism countries, in Lithuania the pact between anti-communist and anti-(ex)communist elites was not abolished, but reconfirmed and strengthened by the collaboration to oust Paksas. The left-of-centre minority coalition government under the ex-communist Gediminas Kirkilas could rule Lithuania in 2006–2008 due to the tacit support of the Conservatives. The image of the Homeland Union supporting the ex-communist government was completely inconceivable before the impeachment.

The focus of this chapter is on the causes and consequences of the presidential impeachment in Lithuania. Therefore, I will limit myself to some tentative remarks about the causes of the rightist populist wave. Its rise is puzzling because it took place at the time when the hardships of the post-communist transformation were over, and the economies of the Central European and Baltic countries entered a time of unprecedented economic growth and prosperity. The Central European

countries were not the top performers among post-communist countries if judged by their growth rates (see table 3.5 in chapter 3), but the economic growth of the Baltic States was quite spectacular, earning them the short-lived fame of “Baltic tigers”. Unemployment went down (partly due to increasing labour migration to the older members of the EU), and the benefits of the long-awaited prosperity trickled down the ladder of social-economic stratification.

Therefore, it is difficult to accept the explanations that relate the surge of populism in the post-communist liberal democracies to the disappointed hopes of the accession to the EU (because it did not include the eastward expansion of the European social model).⁶ Another explanation (Ost 2007) attributes the rise of populists to the failure of the left to mobilize labour for the traditional class-based labour politics (actually, nominally left parties did not attempt such mobilization, preferring to present themselves as catch-all parties). Rather, the puzzle probably may be solved by means of the old fashioned relative deprivation theory: even the rapid rise of the economic welfare was not sufficient to offset the increasing discontent of the vast strata of the relative and absolute losers of the post-communist transformation, who felt that they hadn’t got what they perceived they were entitled to get.

The main cause for the rise of both right-wing and left-wing populism in post-communist countries seems to be the very uneven distribution of the gains of the post-communist transformation in general, and those from the accession to the EU in particular. As a result, a plurality or even the majority of those who were decidedly against the communist system and expected to win from its abolition, felt themselves deceived and betrayed by the end of the first post-communist decade. New populist parties were most successful among the ageing population too old to try once more to find their chance and who were susceptible to moralizing conservative nationalist rhetoric; in the economically stagnating rural areas and regions and in the small towns with high unemployment rates. The losers resented most strongly the real or alleged prosperity of the former members of the communist elite. So ex-communist parties and other public figures associated with the communist party could hardly escape the role of the culprits for the dashed hopes of vertical mobility, for too little or no compensation by those who perceived themselves as victims of the communist regime.

As time goes on and generations change, the mass basis of right-wing populism may be replenished by those younger persons who may perceive themselves threatened by the pending labour immigration or are driven by identity-related worries. But the future of right-wing populism in post-communist countries or only in Lithuania for that matter is not the subject of this chapter. Importantly,

⁶ See Shields 2007.

in this country left-wing populism which uses anti-establishment rhetoric but is relatively soft or even neutral on ex-communism, is stronger than in other former countries of national communists. I would like to hypothesize that the successful impeachment of Paksas is an important cause of this Lithuanian peculiarity, helping to undermine right-wing populism in Lithuania. If the ex-communists and pro-European liberals in Poland were able to cooperate as closely as Lithuanian non-populist right parties and ex-communists were able to do against Paksas, then Poland could have avoided or shortened the rule of the Kaczyński twins.

The theory of the (right-wing) populist politics is not the only epistemic frame that may be useful to account for the Paksas phenomenon. Paksas' election to the Lithuanian Presidential office was his third jump to the top office after service as Conservative Prime Minister in 1999, and after his second service as Prime Minister of the "new politics" coalition engineered by the then President Valdas Adamkus following the *Seimas* election in 2000. Paksas had a third chance simply because Lithuania has a directly elected president, and so is exposed to the perils of presidentialism and semi-presidentialism, famously analyzed by Juan Linz and already briefly discussed in section 3.4.

These perils include personalizing the presidential election thereby favouring populist candidates, and giving a chance for outsiders or newcomers. "The personalized character of a presidential election makes possible, especially in the absence of a strong party system, the access to power of 'outsiders.' We mean by this, candidates not identified with, or supported by, any political party, sometimes without any governmental or even political experience, on the basis of a populist appeal often based on hostility to parties and 'politicians.' The candidacy of such leaders might appear suddenly and capitalize on the frustrations of voters and their hopes for a 'saviour'" (Linz 1994: 26).

Of course, Paksas can be considered as a newcomer or outsider only with important provisions.⁷ As already mentioned, he served two times as Prime Minister before his bid for President's office. Even if he was not a newcomer, I would argue that he can be classified as an outsider. Both times his service as Prime Minister were quite short. So, in turn, the list of Paksas' deeds which he could present as his real achievements as Prime Minister was quite short if not even empty (see Kašauskienė 2007: 403–432, 484–538). However, the very shortness of both his services as Prime

⁷ The leaders of other successful populist parties in post-communist countries were no real newcomers or outsiders too. However, they managed to create or maintain the image of being "different" because of former positions providing visibility but not involving them in the "dirty" day-to-day politics. Einars Repše served as president of the Bank of Latvia in 1991–2001, Juhan Parts had in 1998–2002 the unimpeachable office of Auditor General of Estonia, using it for frequent criticism of the government to win popularity. Curiously, Lech Kaczyński also served as the President of the Supreme Chamber of Control in Poland, then continuing to build the image of corruption fighter as Minister of Justice and Attorney General.

Minister and the circumstances of their termination helped him to build the reputation of a rebel who does not play according to the rules of the establishment⁸, or alternatively as its victim⁹. Even if he remained in the political class, he was perceived by its majority as a marginal member. So even if Paksas was no political outsider in real terms, he managed to position himself as such in the public's perception. Then he could pretend to bid for power as a "beetroot"¹⁰ President, exploiting and mobilizing the anti-establishment resentment of the transformation losers.

There was no such opportunity for his counterparts in Estonia and Latvia. They could bid for power only by winning votes at parliamentary elections and then playing in the coalition-building games. The removal of a populist from the office of President by impeachment could not and cannot happen in Latvia and Estonia, because they chose the parliamentary form of democracy, while Lithuania was one of those post-communist countries which opted for semi-presidentialism. Semi-presidentialism is the constitutional framework adopted by 15 of the 29 former communist bloc countries. They include Armenia, Bulgaria, Croatia, Kazakhstan, Kyrgyzstan, Lithuania, Macedonia, Moldova, Mongolia, Poland, Romania, Russia, Slovenia and Ukraine. Six states adopted presidentialism in their first post-communist constitutions (Azerbaijan, Belarus, Georgia, Tajikistan, Turkmenistan and Uzbekistan), and eight adopted parliamentary constitutions at the start of transition (Albania, Bosnia-Herzegovina, Federal Republic of Yugoslavia, Latvia, Czech Republic, Estonia, Hungary and Slovakia) (see Protsyk 2011).

A necessary condition for presidential impeachments to happen is the presence of a popularly (directly) elected president. Because such election takes place only under presidentialism and semi-presidentialism, the Baltic States with the exception of Lithuania are safe from presidential impeachments. In Latvia, the president is elected by the parliament (*Saeima*). Estonia's president is elected by parliament, or (if none of the candidates manages to win two-thirds of the votes) by a special electoral college composed of members of the legislative assembly and representatives of local self-governments. The procedure of impeachment includes as its pivotal element the voting by parliament requiring a qualified majority of MPs. Because under a parliamentary republic a person cannot become president without the support of the parliamentary majority, the impeachment of the president may be logical, but not an empirical possibility under parliamentary elected presidents who are mainly ceremonial state heads. The procedure for their

⁸ This was how his first resignation in 1999 was perceived by his supporters. More about this in the next section.

⁹ This was the image of his second resignation, see next section.

¹⁰ "Beetroot" (*runkeliai*) is an ironic designation of "people" in Lithuanian populist rhetoric, which like its manifestations in other countries is distinguished by the opposition between "people" and the "establishment" or the elite (*elitas*).

removal is not much different from the removal of the Prime Minister by the no-confidence vote, and therefore sometimes is not even called “impeachment”.

Because of the differences in the election procedure, the discrepancy between the visibility and popularity of parliamentary presidents and their circumscribed constitutional power is less in Estonia and Latvia than under Lithuanian semi-presidentialism. Estonians and Latvians cannot expect from coming presidential elections in parliament to bring a “saviour” who will initiate essential changes in the economy and politics. However, such expectations are typical in Lithuania, fueled by the promises of the competing pretenders, which are not matched, even in small part, by the real scope of the Lithuanian president’s legal powers. Because of these expectations, Lithuanian semi-presidency harbours the potential of the tug-of-war between prime minister and presidents and the deadlocks between the executive and legislative, while parliamentary presidency in Estonia and Latvia repeatedly proved its usefulness by helping to build stable government majorities despite even a greater (in Latvia) party system fragmentation.

So it is easy to offer advice on how Lithuania can be safeguarded against more presidential impeachments in the future: by constitutional reform abolishing the presidential institution or replacing the popular election of president by election in *Seimas*. Actually, Lithuania lived with such a parliamentary elected president in 1922–1926. However, the statement that presidential or semi-presidential democracy is a necessary condition of presidential impeachments provides only part of the explanation of why impeachment did happen in Lithuania but not in some other post-communist semi-presidential liberal democratic country. Presidential elections and presidential legal powers are quite similar in Lithuania and Poland, but nobody would dare to assert that the death in the plane crash at Smolensk saved Lech Kaczyński from the fate of Rolandas Paksas in Lithuania, although as right-wing populists they were political kinsmen.

To find the answer of how and why Rolandas Paksas was successfully impeached, while his counterparts in other post-communist semi-presidential democracies will most probably never suffer this fate, we need more detailed knowledge on how the impeachment happened. The statement that the Paksasgate story provides another illustration for Linz’s thesis about the perils of (semi-presidentialism) may be true or may be wrong, but the story is still not told. Differently from the first section, where I was busy providing the non-Lithuanian reader with the comparative context for what happened in October 2003–June 2004, the next section “zooms in” on the Lithuanian case, providing the events already mentioned with the grain which is visible only on the micro-scale.

7.2. Paksasgate Story: Staging, Casting, and Plots about Plots

During the entire period of restored independence, the Lithuanian political system was in serious crisis at least twice. The first time this happened was in the September 1993. The servicemen of the Voluntary National Defence Service (VNDS; *Savanoriška Krašto Apsaugos Tarnyba*; SKAT) in Kaunas stopped obeying their command line. Following the example of the post-war anti-communist resistance movement fighters (the “Forest Brothers”), they withdrew to the forest. The VNDS core consisted of volunteers who, during the dramatic time of the confrontation between the government structures of the Republic of Lithuania and the Soviet military (in 1990–1991), were preparing themselves for armed resistance in the case of the Moscow authorities attempting to destroy Lithuanian independence by force.

These volunteers were enormously disappointed by the ex-communist Lithuanian Democratic Labour Party's victory in elections to parliament in October 1992. The ex-communist government was further consolidated after their leader Algirdas Brazauskas was elected Lithuanian President on February 14th, 1993. Under conditions of deep economic recession, the volunteers were frustrated by poor salaries and service conditions. Many of them earned additional income by private economic activities during the service-free time. This was mostly work in security firms, involving some of them to come into conflict with the police. This happened to the volunteers rebellion leader Jonas Maksvytis, who was the first to hide from arrest in the woods with three companions. This happened in early August, and the revolt began when on September 16th, 1993 Maksvytis was joined by another 150 volunteers.

The revolt faded away after the volunteers did not find partners among the eminent political figures of the Lithuanian Right, who would agree to take over state authority after a coup (most hopes were invested into Vytautas Landsbergis). The political right did not resolve to break the implicit pact with ex-communists which ensured the smooth transfer of power after the ex-communist electoral victory. There is no certainty whether the coup would have succeeded even if the volunteers had received political support or cover. There were many former Soviet Army officers (and by the same token, former Communist Party members) in high positions of responsibility in the Lithuanian military. It could not escape them that after a successful coup they would be the first candidates for “cleanings”. Therefore, they would probably have fulfilled the order of President Algirdas Brazauskas to suppress insurrection by force, if any were received.

Just on the eve of the events in question (on August 31st, 1993) the withdrawal of Russian troops from Lithuania came to an end. Even if the coup failed, the international reputation of Lithuania would have been severely damaged. The harm

to the prestige of Lithuania would have been very severe due to the fact that for some days before the outbreak of the rebellion Lithuania had been the focus of the world media: on 04–08.09.1993 Pope John Paul II was paying a visit to Lithuania. As the conflict was resolved peacefully, events in the woods near Kaunas went almost unnoticed and the international image of Lithuania did not suffer.

This was different in the case of the second major political crisis: the impeachment process of the President of the Republic of Lithuania Rolandas Paksas that ended in April 2004 with his removal. For seven months (late October 2003–late May 2004) Lithuania was involved in an intense political struggle. By Spring 2004, some local political analysts described the political situation in the country as a “cold civil war” not unlike that which Weimar Germany was involved in (Laurinavičius 2004).

I will present this political crisis by the aspects or phases that can be distinguished in the production of film or theatre performance – staging, casting, and plotting. In the short staging part, I provide the necessary information about the constitutional rules of the political game in addition to what was given in the first section. The casting part introduces the main players of this game – political parties and their leaders. The chronicle part presents a reportage on the most important events leading to impeachment. The plot part presents alternative emplotments used by the President’s party and their opponents for social construction (definition) of the reality – what was going on? I will postpone the critical discussion of the stories for the next section in this chapter.

The Lithuanian political stage is shaped by the rulings of the constitution adopted on October 25th, 1992. This constitution emerged out of the dramatic struggle involving the bulk part of the Reform Movement of Lithuania loyal to its leader Vytautas Landsbergis and a broad spectrum of his opponents. Landsbergites were for the presidential republic, and their opponents were for a parliamentary republic. This struggle culminated in the referendum on the presidency on May 25th, 1992 in which the idea of a strong presidency was defeated. The outcome was a mixture, which corresponds to the concept of the “semi-presidential” regime (see Urbanavičius 1999).

In terms of constitutional law, the Lithuanian state is constructed, of course, according to the classical principle of the division of powers.¹¹ Its basic structure includes:

1. *Legislature*. This is the *Seimas*, that has 141 seats and is elected every 4 years. The members are elected according to rules that are a mixture again, this time of the proportional and majoritarian systems. About half (71) of the members are elected

¹¹The text of Lithuanian Constitution in English is available at <http://www.lrkt.lt/Documents2_e.html> 27.04.2011.

in single member constituencies (districts), and the other half (70) are elected in a nationwide vote by party lists. Because of this mix and the rule that a party must receive at least 5% of the national vote to be represented in the *Seimas*, there is no exact correspondence between the party's electoral achievement in terms of nationwide vote, and the share of seats that it gets. The *Seimas* is presided over by the Chairman, whose duties include the execution of the functions of the interim or provisory President if the elected President dies or is ousted by impeachment.

2. *Judiciary*. There are the top two Courts: the Supreme Court that is the supreme instance in civil and criminal cases, and the Constitutional Court for cases involving allegations that laws or executive decisions violate the constitution. The Constitutional Court consists of 9 judges who are appointed by the *Seimas* for 9 years each, and do not have the right to be appointed for a second term.

3. *Executive*. There are two top positions: Prime Minister and President. The Prime Minister presides over the Minister Cabinet that is responsible to the *Seimas* and needs the support of the *Seimas* majority to remain in power. Local analysts sometimes call Lithuania a "governmental" or "prime ministerial" republic, with the intended meaning that the most real power is concentrated in the Minister Cabinet and especially in the hands of the Prime Minister. However, the government is not stable because of shifting party coalitions and the internal power struggle within the parties.

What powers remain then for the President? The most important of them is the power to nominate the new Prime Minister after the *Seimas* election. There is no rule in the Lithuanian constitution that restricts the President's choice of the nominee. If the *Seimas* rejects two Presidential nominees in a row, the President is entitled to dissolve the *Seimas* and to announce a new *Seimas* election. The President has veto power for the bills that were accepted by the *Seimas*. However, this veto power is not overriding, because the President is obliged to sign the bill if it has passed with a simple majority by the second voting. The President nominates the top judges, including one third of the members of the Constitutional Court, and the broad range of the top state officials, including top military and Lithuanian ambassadors abroad. However, these persons get their jobs only if their nominations are approved by the *Seimas*. But there are positions for which the President has the right of a single-handed appointment – for example, county or district judges. The President represents Lithuania in relations with other states and has some minor powers, including that to pardon convicts and to grant Lithuanian citizenship as a personal exception from the article of the Constitution that generally forbids double citizenship. The President is elected for a 5 year term. The same person cannot be elected for more than two terms in a row.

To present the full casting of the presidential impeachment crisis in Lithuania one would need to introduce all 40 political parties that were registered in

Lithuania around 2003. To simplify, I will introduce only the parties and leaders with political weight, and typologise them. This typology of Lithuanian parties is inductive and case-centred (so not deductive or applicable beyond the confines of Lithuania) and distinguishes three clusters among them: Big Wrangling Twins, Historical Parties, and Liberal populist parties.¹²

(A) *Big Wrangling Twins*. They are the former Lithuanian Communist Party under the leadership of Algirdas Brazauskas (1932–2010) that survived in independent Lithuania as the Democratic Labour, now the Social Democratic Party, and the Homeland Union or Conservative Party, formerly under the leadership of Vytautas Landsbergis, now Andrius Kubilius, with the significant part of the activists of the former *Sąjūdis* as its constituting core. Formally, they describe themselves as “left” and “right,” but these self-descriptions do not have the usual meaning under Lithuanian conditions (see also 5.3). The real cleavage between them was derived and still derives from the different attitudes to the Soviet period in Lithuanian history (Ramonaitė 2007: 39–49). By 2010, these parties still remain the core of the Lithuanian political establishment or its political class, including professional politicians with the longest political survival record.

For the Conservatives, the Lithuanians who joined the Communist party are traitors and collaborators. In the Conservatives’ view, former Communists have no moral right to play public roles if they did not perform public acts of repentance or other symbolic actions signifying moral rebirth. I call ex-communists and Conservatives “Twins” because the Conservative Party draws the significant part of its hardcore supporters from the same social milieus as Labourists. This is the Lithuanian establishment of the Soviet era.

Another sub-group of hardcore supporters of the Conservative party includes former participants of the anti-Soviet resistance movement after WWII, political prisoners, and returned deportees to Siberia and their relatives. Because of the sweeping scale of the post-war political repression, they are very numerous in Lithuania. However, in the early 1990s parties from another cluster competed with Conservatives for the votes of the same segment of the electorate. I call this cluster “historical parties.”

(B) *Historical parties*. These are parties that consider themselves restored parties of interwar Lithuania. They include Nationalists (*Tautininkai*) who were the ruling party in 1926–1940, Democrats, Christian Democrats, and Social Democrats. Social Democrats merged in 2001 with Labourists into one party, after having participated shortly before in the *Seimas* election with the joint nationwide list. So the old dream of ex-communists being accepted as members of Socialist

¹² For more detail about Lithuanian political parties see Krupavičius and Lukošaitis 2004: 297–342; Novagrockienė 2001; Žvaliauskas 2007; Ramonaitė 2007 and 2009.

International and acquiring other honourable political symbols was fulfilled. Much more later, Christian Democrats followed their example, after numerous internal splits joining in 2008 Homeland Union that became as a result Homeland Union-Lithuanian Christian Democrats. In the same year, they were followed by Nationalists. Like Christian Democrats, they were allowed to preserve their identity in the host party by establishing official factions in the Conservative party.¹³

Until the election in the year 2000, Lithuanian politics was the game played mainly by the parties from those two clusters. After this election, President Valdas Adamkus made the attempt to end this game by appointing Rolandas Paksas as the head of the government built by parties from the third (C) cluster – *Liberal populist parties*.

In the year 2002, when the presidential election campaign leading to the election of Rolandas Paksas took place, this cluster included:

1) the Centre Union under Kęstutis Glaveckas.

2) the Liberal Union, formerly presided by Eugenijus Gentvilas, then Rolandas Paksas, and then again by Gentvilas, and then Artūras Zuokas. In May 2003, the Liberal Union joined with the Centre Union and Modern Christian Democrats to build the Liberal and Centre Union under Artūras Zuokas. After Artūras Zuokas was compromised by the the involvement in a corruption scandal implicating his activities as Mayor of Vilnius city, part of the members of this party split off in February 2006, founding the Lithuanian Liberal Movement under Petras Auštrevičius who was replaced in the 2008 by Eligijus Masiulis. In 2009, Zuokas stepped down from the duties of the Chairman of the Labour and Centre Union, making the place free for Gintautas Babravičius until 2011, when he was replaced by Algis Čaplikas.

3) the Social Liberal Union (or New Union) led by Artūras Paulauskas.

4) the Liberal Democratic Party of Rolandas Paksas (renamed into Order and Justice in 2008¹⁴).

The very name of “liberal populist” party may seem puzzling for an expert in political ideologies and their nomenclature in Western Europe. After all, liberals are reputed as elitist parties, uniting in their ranks principled exponents of the free market ideology, minimal state, and personal freedom. As a matter of fact, the Social Liberal Union of Paulauskas and the Liberal Democratic Party of Rolandas Paksas have little to do with liberalism as a political ideology defined by these values. The Social Liberals are typical left-of-centre populists. The Liberal Democrats of Paksas have to do with liberalism not much more than their namesakes in Russia – the Liberal Democratic Party of Vladimir Zhirinovsky, or their counterparts in Poland (Law and Justice Party) and Hungary (*Fidesz* – Hungarian

¹³ Besides the Christian Democrats and Nationalists factions, the Homeland Union includes also a faction of former Political Prisoners and Exiles.

¹⁴ Between 2006 and 2008, the name of party was Order and Justice (Liberal Democrats).

Civic Union). The use of the word “liberal” as part of the party name was manipulative, because during the first post-communist decade it had enormous positive emotive meaning. Characteristically, as this meaning flagged, Paksas’ party changed its name into “Order and Justice” which is somewhat more revealing about its real ideological preferences.

The Centre Union and the Liberal Union are different cases. During the first post-communist decade they were the two Lithuanian parties professing “true” liberal ideology. At this time, there was no reason to associate them with populism. The Liberal Union started as classical *Weltanschauungspartei*, uniting a band of academic intellectuals, converted to liberalism by reading the books of Friedrich von Hayek, Karl Popper and the likes. The Centre Union was one of the spin-offs of *Sąjūdis*, with Romualdas Ozolas and Egidijus Bičkauskas as the founding fathers. Both were prominent politicians during the heroic time of the independence struggle in 1988–1991. They opposed the authoritarian tendencies of Vytautas Landsbergis. In 1993, they founded a political party that would provide political representation for the Lithuanian new middle class (bourgeoisie) in the making. This was the self-assumed mission of the Centre Union that had some success at the *Seimas* election in 1996 (8.24% in a nationwide vote by party lists). The Centre Union was for “national” liberalism, while the Liberal union was rather indifferent to the idea that the mission of the independent Lithuanian state is the preservation of the Lithuanian language and culture.

The next election (in 2000) was a catastrophe for the Centre Union: with 2.86% of the vote it did not manage to win the minimum 5% nationwide votes by party lists that is necessary to win seats in *Seimas*. The election was an unprecedented success for the rival Liberal Union which collected 17.25% of the vote. However, this success was mainly owed to the deal with the paragon of Lithuanian populism Rolandas Paksas, who brought the votes of his electorate in exchange for the position of the Liberal Union chairman. This deal empowered the Liberal Union to outdo the Centre Union and to break into the established parties cartel.

So my classification of Liberal Union together with populist parties simply reflects the actual situation in the early 2000s, when the strategists of this party made an unholy alliance with right-wing populism for the sake of political power, tainting the reputation of liberalism in Lithuania. This stain of the unprincipled opportunism remains not completely cleaned off even after *Seimas* elections in 2004 and 2008, when the electorate, profile and performance of the “true” Lithuanian liberals became more in line with their counterparts in Western European democracies (e.g. the Free Democratic party in Germany). They are minority parties¹⁵ (but

¹⁵ Let me remind that presently (in 2011) there are two would-be “authentic” liberal parties in Lithuania: Lithuanian Liberal Movement under Eligijus Masiulis and Liberal and Centre Union under Algis Čaplikas.

pivotal in coalition government building), representing the rather thin strata of the well-paid young urban professionals with a cosmopolitan and pro-European world outlook.

In terms of electoral tactics, the pacting with Paksas was quite a sensible decision of the Liberal Union in the scramble for swing or protest votes. Lithuanian political life is marked by one of the highest rates of electoral volatility among post-communist countries.¹⁶ Each election, a significant (but decreasing) part of voters vote against incumbent parties, and many of them vote for the new entrants in the electoral competition (see Degutis 2002; Jankauskas 2005 and 2009; Jurkynas 2005). In the *Seimas* election of 2000, the newcomer party of Social Liberals of Artūras Paulauskas, former Prosecutor General, and the Liberal Union split their votes among themselves, the Liberals mainly picking up the votes of the disappointed supporters of the Conservatives, and Social Liberals winning the votes of those who were disenchanted about ex-communists.

Born in 1956, Paksas graduated in 1979 from the Vilnius Civil Engineering Institute with a degree in Industrial and Civil Engineering and then from the Leningrad Civil Aviation Academy in 1984 as an engineer pilot. As a stunt pilot, Paksas won the aerobatics championship in Lithuania several times, the championship of the Soviet Union twice and was the winner of international aerobatics competitions. After making a fortune in construction, he joined the Conservative Party. In 1997 he was elected to Vilnius City Council, and became the Mayor of the Lithuanian capital. In May 1999 the leader of the Conservative Party Vytautas Landsbergis selected him as the successor to Prime Minister Gediminas Vagnorius, who had split with President Adamkus over how to cope with the impact of the Russian crisis of 1998 on the Lithuanian economy.

In this way Paksas became Prime Minister in June 1999, heading the ninth government after the restoration of independence. Five months later, he resigned because of a disagreement with the leaders of the Conservative Party over the sale of *Mažeikių Nafta* (Mažeikiai Oil), the Lithuanian oil processing company to the American oil company Williams. After the resignation of Paksas, *Mažeikių Nafta* was nevertheless sold to Williams, because of political reasons, under very unfavourable conditions for Lithuania and with disastrous economic consequences that prompted Williams to resell its purchase to the Russian company Yukos. The story of the privatization of *Mažeikių Nafta* sealed the defeat of the Conservatives in the election of 2000, and definitively ruined the reputation of Vytautas Landsbergis, who was forced to resign from the position of the Conservative Party's leader in favour of Andrius Kubilius, but was to remain the party's honorary chairman.

¹⁶ Lithuania with 39.2 Pedersen index average electoral volatility points for 1992–2000 was next to Russia with 47.3 points, and was followed by Moldova (36.6), Latvia (29.0), Estonia (25.9), Hungary (27.4), Poland (24.6). The Czech Republic with 12.8 had the lowest score. See Bielasiak 2002: 199.

The resignation of Paksas on October 27th, 1999 was the act that overnight provided him with political capital, earning him the reputation of being uncompromisingly honest, maybe the only honest and at the same time economically competent politician in the eyes of broad parts of the population. He was courted by the leaders of the Liberal Union to become its head. With a small group of his followers, former members of the Conservative party, Paksas joined the Liberal Union in December 1999 and was elected its chairman. As was already reported, the votes of Paksas' supporters catapulted the Liberal Union from its existence in the political shadow to the status of third-strongest party in the *Seimas*. For his part, President Adamkus had decided to use Paksas as the main instrument of his "new politics," arranging the coalition of Liberals and Social Liberals and nominating Paksas in November 2000 as Prime Minister for the second time.

However, this move by Adamkus disappointed the ex-communist leader, former President Brazauskas, who worked hard to persuade Social Liberals to defect from the Liberals and build a coalition with them. In Summer 2001, this work bore fruit, and Paksas was forced to resign. After losing his position as Prime Minister and with the next *Seimas* election far in the future, Paksas was no longer considered a useful asset by the old members of the Liberal Union, and was challenged by its former leader Eugenijus Gentvilas. The internecine fight among Liberals led to the split of the Union and its faction in the *Seimas*, with Paksas and his supporters establishing the Liberal Democrat Party in March 2002. With this party Paksas went to the presidential election in late 2002, winning 19.7% of the votes in the first round on December 22th, 2002 and soundly beating his former promoter and protector Adamkus in the second round on January 5, 2003 with 54.9% against some 45% of the votes.¹⁷

During the election campaign, Paksas focused on the provincial public, telling the story about the stubborn and simple guy from the province who managed to realize his dream – to become a pilot, a well-off businessman through his entrepreneurship and competence as construction engineer. This was the story about a Prime Minister who tried to help people, was overlisted and ousted by corrupt politicians in the capital city, and was now about to embattle them and the bureaucrats in the decisive fight against corruption for legal and moral order. A reader with knowledge of American political history is invited to imagine Jimmy Carter in his electoral campaign in the year 1976 as a stunt pilot and rocker-motorcyclist, and she/he will get an approximate idea of what the electoral rhetoric of Paksas looked like.

The single greatest contribution to the Paksas election campaign – about US\$ 400,000 – was made by the ethnically Russian businessman Yuri Borisov, owner

¹⁷ For the account of the presidential election of 2002 in detail see Bielinis 2003.

of the company *Aviabaltika* that repaired and traded helicopters in Kaunas.¹⁸ This firm was suspected of selling spare parts for military helicopters to countries that support terrorism. On this allegation, the activities of Borisov were repeatedly investigated and remain under the close observation of various Lithuanian state agencies. Through his contribution to Paksas' campaign, Borisov expected to buy a somewhat friendlier attitude toward his business from the Lithuanian state, to get appointed as Paksas' adviser, help to destroy his competitor *Helisota* and receive state decorations (Vaičaitis 2005: 178–179). These expectations and calculations may have been inspired by the observations of relations between state and big business under political oligarchic capitalism in Russia.

After staging and casting, a short chronicle of the chain of events follows, leading to the removal of Paksas. This chain started in late October 2003, when Paksas announced his decision to appoint the new Chief of the one of the several Lithuanian Secret Services – *Valstybės Saugumo Departamentas* (VSD) or in English, the State Security Department (SSD). On October 30th, 2003 a secret SSD memo leaked into the mass media from the office of the Chairman of *Seimas* Paulauskas. The memo contained the statement that some of Paksas' advisors had connections with mobsters from Russia. There was probably no mastermind behind the leaks into the mass-media which followed next, with extracts from Paksas' wire-tapped conversations, just to keep the public excited week after week, but the SSD was the sole agency capable of monitoring the Lithuanian President's communications.

To investigate the misconduct of Paksas' advisors and that of his own, *Seimas* appointed a special investigation commission headed by the Social Democrat Vytautas Sakalas. The meetings of the commission where Paksas' advisors and other officials were called for public testimony were broadcast live on public television. On December 1st, 2003, the commission reported that there were six charges indicating that Paksas had committed impeachable acts and that there was a risk to Lithuania's national security.

The most energetic proponents of the impeachment were Paksas' former party comrades – Conservatives and Liberals. At the very beginning, many analysts predicted from Paksas' behaviour during his earlier resignations that he would yield to the pressure and resign before the start of impeachment. However, this did not happen. So the impeachment went through all the many interim stations and motions. On December 23rd, 2003 the 12 person panel as prescribed by impeachment law was formed. On February 19th, 2003 the panel concluded that most of the charges were justified to begin the impeachment. On the same day

¹⁸ See <<http://www.sparcavia.com/index.php?item=1&subitem=2&lng=eng>> 27.04.2011.

Seimas voted to start the impeachment and passed the charges to the Constitutional Court together with about 1 ton of paper evidence.¹⁹

The Constitutional Court ended its part on March 31st, 2004, indicting Paksas on 3 charges (see Constitutional Court of Lithuania 2004a).²⁰

All three charges were approved by the *Seimas* voting on April 6th, 2004 (86–17, 86–18, and 89–14), and included:

1) Honouring Russian citizen Yuri Borisov with Lithuanian citizenship in violation of rules and procedure and as payback for his financial and other support during the 2002–2003 presidential election campaign;

2) Inability to protect secret information by allowing Borisov to understand that his phone had been wire-tapped and that he was under surveillance by the SSD;

3) Meddling in private business affairs (the President, via his advisers, pushed shareholders in a road-building company to sell their shares to businessmen who were Paksas' close friends).

Only 115 *Seimas* members participated in the voting, while at least 85 votes approving at least one charge were necessary to remove the President. So the impeachment succeeded by quite the small margin. The support of the ex-communist Social Democratic party was pivotal for this success.

After removing Paksas, the Chairman of the *Seimas*, Artūras Paulauskas took over as acting President until the outcome of the next election was known in June 2004. The impeachment clouded both Lithuania's entry into NATO on March 29th and into the European Union that followed on May 1st.

How to make sense of this chain of events? I will try to do this in two approaches. Firstly, in the remainder of the present section I will present emic accounts of the actors involved in the events. Then (in the next 2 sections) I will proceed to develop an etic interpretation using resources of the theoretical work on democratic consolidation and comparative research on presidential impeachments.

From the viewpoint of the power mechanics of the democratic process circumscribed by the provisions of the Lithuanian constitution, the outcome of the impeachment process was decided by the weak parliamentary base of the Paksas presidency²¹ and by the edge that the Anti-Paksian coalition had in the mass media. National newspapers (with the exception of the important newspaper "Respublika"), public television and radio, and most of the private TV channels (with

¹⁹ The most important documents are collected in Vaičaitis 2005.

²⁰ The text of indictment also contains the crucial pieces of evidence. Almost all of them are citations from the transcripts of the wire-tapped phone conversations of Paksas and people from his environment.

²¹ Paksas was supported in *Seimas* only by his Liberal Democrats, Farmers' and New Democracy Party, independents and some dissident Social Democrats.

the exception of one, again) were on the Anti-Paksian side. So public support for Paksas slowly melted down. According to surveys, in November 2003, 41% of respondents maintained that Paksas should resign, and 56% said that he should stay in office. Almost symmetrically, according to the data collected between March 11–14th, 2004, 55% believed that Paksas should resign, and 41% maintained that he should remain President (“Daugelis šalies rinkėjų...” 2004: 2).

In the mass media, a pitched contest of narratives took place, each side trying to persuade the population and foreign observers to believe its version of events. Both sides interpreted the events as the outcome of some plot (conspiracy). The pro-Paksian narrative was the continuation and elaboration of the electoral campaign story about an honest politician with provincial roots who was about to make Vilnius clean from corruption. As the continuation of the story goes, the corrupt clan was frightened by this prospect, and plotted to bring down the good guy (Ganusauskas 2004).²² Regarding the charges, Paksians complained that they were grounded in the application of the double standard. As their complaint goes, former Presidents Brazauskas and Adamkus used without anybody’s objection their Presidential powers to grant Lithuanian citizenship for some 740 men and women, including some 200 among them allegedly without any deserts for Lithuania. The second charge they considered as absurd, because Borisov must have known that he was under the observation of the SSD long before the election.

As for anti-Paksian stories, there were three versions. The first story, which is the archetypal Lithuanian story, is that Borisov and probably Paksas as well were Russian agents, with Borisov acting as Paksas’ controller. As this story goes, the Paksas election was an operation of the Russian Federal Security Service. This story prevailed in November and early December. The main piece of evidence in its favour was the fact that the consulting company Almax from Moscow orchestrated Paksas’ electoral campaign. Anti-Paksian mass media described this company as a unit of the Russian Federal Security Service. However, in December two employees of the company, Ana Zatonaskaja and Anatolij Potnin unexpectedly arrived in Vilnius for an interrogation by Lithuanian prosecutors trying to persuade them that they were simply a profit-making public relations company. The story, however, continues to be used in the “information war” against Paksas.

The second plot is proposed in a book written by the prominent Lithuanian political scientist Raimundas Lopata and journalist Audrius Matonis who suggest that the impeachment events should be understood as a battle between Russian and U.S. secret services, the American side starting the events in October with

²² The author of the book is a journalist who during the Paksas Presidency worked in his team. For the debunking of pro-Paksian narratives see Savukynas 2004.

the goal of cleaning up the Lithuanian political scene from the Russian agents of influence and other relics of the Soviet past just before Lithuania's joining NATO and the EU (Lopata and Matonis 2004: 62).²³ As for the election of Paksas, it (of course) "was planned by Russia" (Lopata and Matonis 2004: 56).

In March 2004 none other than Laurinkus, who was reappointed by *Seimas* in the office of the head of SSD until the end of Paksas' impeachment, launched the third story during a live TV broadcast. According to his story, the plot was that of an international cigarette smuggling mafia that used Lithuania as a transit country to smuggle its merchandise to Western European countries. After the SSD, under Laurinkus' direction, intercepted several cargos and inflicted on the smugglers huge losses, the mafia bosses decided to oust Laurinkus from his position at all costs. Therefore, if not Paksas himself then at least some of his advisors were the placemen of the international mafia (see Sotvarienė 2004).

All versions of the anti-Paksian story make sense of what has happened by asserting that some foreign force – foreign secret service or mafia (Russian or international) – was prevented by Paksas' removal from having a man under their control on the top of the executive power in Lithuania, just at the moment when this country was accepted both into NATO and the European Union, possibly with the benevolent help of Western colleagues.

Because Paksas was indicted on charges different from the allegations in all three stories, they lack credibility at their face value. However, there is at least one point in the anti-Paksian stories that was proven during the impeachment events beyond a reasonable doubt. There were people in Paksas' environment who made attempts to blackmail, influence and manipulate Paksas despite all his efforts to make himself free from them or manipulate them himself. The wire-tapped conversations of Borisov provide the evidence that Paksas tried to break with old friends who helped him to come to power, to cut strings and not pay the bills. However, one can doubt whether Paksas could have succeeded in this.

The decisive evidence about the susceptibility of Paksas to external control was provided by the mysterious events that happened on March 24th, just a week before the announcement by the Constitutional Court of its conclusion. On this day Paksas announced his decision to appoint Borisov as his advisor. Under the circumstances, it was tantamount to political suicide. On the night of the same day Paksas' closest advisors and leaders of the pro-presidential Liberal Democratic Party convinced him not to sign the decree appointing Borisov to his new position. But Paksas' reputation was irreparably damaged, causing even some of

²³ The book of Lopata and Matonis provides a good account of the events leading to the impeachment of Paksas. However, this accounts covers only the events before Christmas 2003. The best political-sociological analysis of the impeachment still remains Laurėnas 2004. See also Laurėnas 2005 and 2006.

his closest associates to break with him and prompting others to doubt his mental integrity. It remains unclear why Borisov was pressuring so obstinately Paksas for an appointment which had more of a symbolic value than provided real power – exactly at the critical moment during the entire impeachment procedure.²⁴ Had this episode not happened, then the odds would be against the success of the impeachment.

Because of its geographical position between the Kaliningrad oblast and mainland Russia, Lithuania is of special interest for Russian foreign policy, even if it is less vulnerable to Russian pressure in comparison with the allegedly “ethnic democracies” in Estonia and Latvia because the Russian minority in Lithuania is both smaller and better integrated. Given Borisov’s connections to Russian business, military, secret service (not proven beyond doubt), and the leverage to influence and manipulate Paksas, it was reasonable to perceive Paksas’ survival as Lithuania’s president as a risk factor for common security interests of Lithuania and its allies in NATO and the European Union.

However, one should not promptly identify these probable security risks with risks for democracy as a political system in Lithuania. Russia is strongly interested in influencing Lithuanian foreign policy on some questions – first of all to get free transit rights to the Kaliningrad oblast. But the undermining of Lithuanian democracy can barely be considered as the purpose of Russian policy with respect to Lithuania. Nevertheless, the hostile influential opinion makers demonized Paksas and his environment, referring to the President’s office as the “nest of snakes” (Radžvilas 2004: 100–102), called Paksas “the enemy of civil society” and “tefefascist” comparable not only with Jean-Marie Le Pen and Jörg Haider, but also with Adolf Hitler himself (Donskis 2004). Was here then the real danger for the democratic consolidation of Lithuania because of the election of Paksas as president?

7.3. Did the Successful Impeachment of Rolandas Paksas Save Liberal Democracy in Lithuania from Breakdown?

I will argue that Paksas’ election per se endangered liberal democracy in Lithuania no more (but not less) than the rise of his counterparts in Estonia (Juhan Parts), Latvia (Einars Repše), and Poland (the Kaczyński twins), but that much more substantial dangers emerged during the escalation of the political conflict over Paksas’ removal by means of impeachment. The success of the impeachment process removed both the dangers that were here before the start of impeachment (together with Paksas’ person), and the dangers that were created by the impeach-

²⁴ After impeachment, Borisov was allowed to remain living and do his business in Lithuania, despite the almost general consensus among Paksas’ opponents that he should be deported as soon as possible as too dangerous a hazard to the Lithuanian state.

ment process itself (but at a cost). In brief, even if the outcome of impeachment was successful for Lithuanian democracy, its very occurrence was not a success. The captains who manage to take their ships from the sand banks deserve the praise, but the captains who never lead them on the shoals, should be praised even more.

Given the benefit of hindsight, the overall cost/benefit balance is positive, but the benefits are not big because of the considerable opportunity cost. To assess the opportunity cost of the impeachment, one must take into consideration (1) the possibility of its failure (to remind, before the dramatic day of March 24th, 2004, it was more probable that impeachment would fail) and (2) the alternative of no impeachment being started. It seems that the cause of liberal democracy in Lithuania has won nothing from the launching of the impeachment (given that no improvement in the quality of democracy followed, see 7.4), because there were other (cheaper) means of neutralizing the real or alleged dangers of right-wing populism in Lithuania. The evidence is provided by the comparison with Estonia, Latvia, and especially Poland. These countries coped with right-wing populism successfully going through political crises that were minor in comparison with the impeachment crisis in Lithuania. But once impeachment was started, its failure could cost very much to Lithuania.

I will be brief on the first alternative (no impeachment process started). Most importantly, Paksas was even lesser a risk factor than right-wing populists in other Baltic States and Poland because Lithuanian voters are more prone to populist vote for left-of-centre parties. Therefore, Paksas had no adequate support in the *Seimas* elected in 2000 and could barely gain it in the coming election of 2004. Despite the greater legitimacy provided by the direct election, institutional powers of the Lithuanian president are much less than those of the Prime Ministers in Estonia, Latvia, Poland and in Lithuania itself. Therefore, Paksas was an even easier case to neutralize, to domesticate and to integrate into the political establishment than his right-wing populist counterparts in other post-communist countries, who had much more support in parliament. With no adequate support in *Seimas*, the Lithuanian president has no possibility to implement his own policy. It is difficult to imagine Paksas' Liberal Democrats winning much more at the 2004 *Seimas* election than they actually did win, if there had been no impeachment.

But did Paksas have his own policy design? Can his anti-establishment rhetoric be taken at face value? Of course, it is impossible to believe the pro-Paksian story about a warrior against corruption that was beaten by a stronger enemy. The would-be fighter against political corruption who is the case of the political corruption himself lacks credibility because of obvious performative self-contradiction. His pre-election deal with Yuri Borisov allows no other classification than political corruption, involving the miscalculated attempt by *Russian* businessman

to capture the Lithuanian state. But the removal of Paksas was hardly the only possible means to make this attempt void. Why was this most heavy-handed (and costly in terms of side-effects) means chosen by those in charge to protect the Lithuanian state?

The answer is that the vested interests behind the Paksas election were *Russian*. This was the most important difference between Paksas and his right-wing populist counterparts in other post-communist states that decided his fate. If he had been sponsored only by Lithuanian businessman or list among his supporters some Lithuanian-American business tycoons²⁵, this fate most probably would have been different (no impeachment, domestication, integration and possibly even re-election). Because of his fluency in Eastern European languages, Paksas' predecessor in the President's office Valdas Adamkus served as a senior non-commissioned officer in the U.S. military intelligence unit in the 1950s and most probably maintained close relations with American secret services in the 1970s and 1980s, when he was a frequent visitor to Lithuania (sometimes several times in a year). Knowing the realities of the Cold War, it is difficult to imagine that a high official in the U.S. federal administration could combine such activities with a very successful career (in 1981 Adamkus was appointed by Ronald Reagan to supervise all air, water, hazardous waste, and other pollution control programs in 6 U.S. states) without the endorsement or supervision of the U.S. secret services.

However, if rumours about his/her real or even only alleged implication with the security agencies of Western states provide a politician in Lithuania (like other post-communist Baltic and Central European states) with additional clout, the allegations of the collaboration with the Soviet security agency KGB or of the connection with their progeny in Russia remain a most dangerous (despite over-used) weapon in Lithuanian politics. The very possibility of a Russian influenced agent sitting at the very top of Lithuanian government was perceived as an insult by lots of patriotically minded officials in the SSD, Foreign and other Offices, by media tycoons, political analysts and public intellectuals. They perceived themselves as guardians of Lithuanian state interests standing above the petty party politics, with a mission to direct and correct (if necessary) the mistakes of democratically elected politicians. The election of Paksas provided this internally heterogeneous category of individual actors with a common enemy who was the challenge and opportunity for collective action and network building.

So the "Russian connection" of Paksas became fateful for him, prompting the crystallization of the powerful enemy in the mass media and state service that has not been matched by the opponents of right-wing populism in other post-communist countries. It is revealing that the political career of Paksas' Latvian

²⁵ As his predecessor Valdas Adamkus did.

counterpart Einars Repše was definitively undermined after it was found that his New Era party gained significant funds from Russian businessmen Valeri Belokon and Georgij Krupnikov. The stars of Juhan Parts and the Kaczyński twins would have faded very quickly, if they had been exposed to credible suspicions of being masterminded by some foreign power which does not belong to the West, as Paksas was.

However, challenging a popularly elected president by the ultimate weapon of impeachment created new dangers and side-effects not unsimilar to those from the use of the A-bomb in conventional warfare. While conventional means of political struggle may inflict more or less losses and coerce the opponent to compromise, impeachment means the “win-or-die” situation, inducing the losing side to break the rules of the democratic political game and so to abolish democracy itself. This did not happen in Lithuania, but there was a possibility of such breakdown, and the victory came at a significant cost to the quality of democracy in Lithuania.

The events were started by the attempt of Paksas’ political opponents to use a favourable occasion to oust him out of the President’s office. This occasion was created by the political crisis after classified material leaked from SSD implicating the President’s assistants and indirectly Paksas himself in connections with Russian mafia. The removal of Paksas was in the common interest of the broad coalition including Conservatives who considered Paksas a “traitor”; Liberals resentful of their former leader; Social Liberals whose leader Artūras Paulauskas was eager to take revenge on Paksas for the humiliating defeat during the presidential election in 2002; and ex-communists (Social Democrats) who were under constant suspicion of having pro-Russian leanings and therefore could profile themselves as the politically correct party by joining the anti-Paksian coalition.

The real danger for Lithuanian democracy arose after the calculation of the coalition that Paksas would resign as he had done twice in comparable situations failed. This did not happen, and the situation had evolved into a full-fledged political crisis by December 2003. As events developed, a new situation was created. Before the events on March 24th, 2004, the outcome of the impeachment was not a foregone conclusion, as evidenced by the very close voting in the *Seimas* on April 6th, 2004. If Paksas had survived, he would have had no other choice to hold on to his position than to take steps leading Lithuania in the direction of delegative democracy – to unravel the power of the *Seimas* and the judiciary.

The events following the impeachment provide the evidence that Paksas prepared a counter-attack against the *Seimas* and the political parties that were behind his impeachment. Excluded from participation in the presidential race, Paksas supported one of the participants in the President’s election – Kazimira D. Prunskienė, proposed by her Farmer’s and New Democracy Party, and reputed

to be a politician with pro-Russian leanings. Three days before the second round, on June 24th, 2004, agents of the Special Investigation Service (SIS, or *Specialioji Tyrimų Tarnyba* (STT) in Lithuanian) conducted searches in the headquarters of four main parties (Conservatives, Centrist Liberals, Social Liberals and Social Democrats), which had supported her rival Adamkus.²⁶

The SIS is one of three Lithuanian secret service agencies, along with the SSD and military intelligence and counterintelligence.²⁷ While the ambit of military intelligence and counterintelligence is rather narrow and precisely circumscribed, the duties of the SSD and SIS overlap. The SSD is the oldest Lithuanian secret service, established immediately after the formal restoration of Lithuanian independence in 1990 with Mečys Laurinkus as its first head. Its functions include intelligence and counterintelligence, anti-terrorist activities, protection of state secrets and that of the foundations of the national economy and strategic objects, socio-political analysis and forecast, and public information analysis. The SIS was established in 1997 to fight corruption among public officials, taking this task over from the SSD. Both services work by like methods (the wire-tapping of phone conversations being most important) and during the years accumulate materials (*compromat*) that has potential value for politicians to compromise their rivals.

Disposing over such materials, heads of secret services may be tempted to approach specific politicians to provide them with useful materials in exchange for political back-up. This enables politicians to play as patrons and use secret services under their patronage for their particular goals, while the heads of secret services are tempted to play political games as well. Political back-up was very much needed by the SIS because many officials whose activities were investigated sought protection by the membership in one of the strongest political parties. If endangered by the SIS, they used their connections to the leading politicians to stop investigations. So the SIS was dependent on political support in its work. Under its chief Valentinas Junokas (in 2000–2004), the SIS sought the political back-up of the incumbent President who according to the Lithuanian constitution should be “above the parties”, suspending her/his party membership if elected. After the election, Paksas inherited this useful patronage, and his team could pore over considerable amounts of compromising evidence against many leading politicians, possibly even against Prime Minister Brazauskas.

Although reputed as a stronghold of the Social Liberals leader Artūras Paulauskas, who due to his background of long service in the law-enforcing agencies had

²⁶ The attempt to discredit the ruling parties and Adamkus’ political base and to increase Prunskienė’s chances of winning failed. Adamkus won the election and forced the head of SIS Valentinas Junokas to resign.

²⁷ See also the website of the SSD at <<http://www.vsd.lt>> and that of the SIS at <<http://www.stt.lt>> 28.04.2011.

many connections in the secret services, SSD had no such pressing need for a political cover-up because of its more loosely defined responsibilities. So its leadership was free to play discretionary power games, manipulating politicians in the pursuit of its often impenetrable goals. In 1998 Mečys Laurinkus became the head of the SSD for the second time. The decision of Paksas in October 2003 to remove Laurinkus, replacing him with a person of his own selection became the most proximate cause in the chain of events that led to his own removal. The leakings of information collected by the SSD was the main weapon of Paksas' opponents. However, due to his control over the SIS, Paksas had compromising material to use against most of his opponents at his disposal too. But the use of this weapon before the impeachment vote in the *Seimas* was tactically inopportune, as this would have led to further decrease his support in the Lithuanian parliament.

If Paksas had survived the impeachment, he could and would have used the SIS as a power resource for a counter-attack against the "traditional" parties which had built the coalition against him. If Paksas had been allowed to run for re-election, the compromising material against him surely would have surfaced at the decisive moment of the electoral campaign. What the SIS did for Prunskienė, it would surely have done for Paksas (and even more), if he had been allowed to participate in the election. No matter what – having survived impeachment or after re-election – Paksas would have been pushed by the logic of the continuing conflict with the *Seimas* and the Constitutional Court to try to take under his control not only the SIS, but also the SSD and the police, and then to use them to crush his opponents, and install a regime of personal power.

Argentina under Carlos Menem (in 1989–1999), Uruguay under Julio Maria Sanguinetti (1985–1990 and 1995–2000) or Slovakia under Vladimir Mečiar (in 1994–1998), Croatia under Franjo Tuđman (in 1991–1999) provides the idea about the political future, which Lithuania could have faced in the case of Paksas surviving the impeachment or being re-elected. In political science, it is described as purely electoral or delegative or populist democracy (see O'Donnell 1994; see also 3.4). Democracy would remain in Lithuania, but it could hardly deserve the adjective "liberal".

Importantly, the critical point in the political process started by the impeachment was not April 6th, when Paksas was removed from his office, but May 25th, 2004, when the Lithuanian Constitutional Court stated that an individual who has been removed from office through the process of impeachment for breaking his oath of office may never seek office requiring an oath (see Constitutional Court of Lithuania 2004b; Vaičaitis 2005: 598–639), and this thereby ended Paksas' political career for the next few years.²⁸

²⁸ In 2009 Paksas was elected to the European Parliament, and the party Order and Justice under his leadership still remains a formidable political force.

7.4. Was it All Sound and Fury, Signifying Nothing, or Why Impeachment Did Not Enhance the Quality of Democracy in Lithuania?

Until the late 20th century, presidential impeachments were a feature of political life in the only one country – the U.S. They became more frequent only with the arrival of the third wave of democracy in the 1970s (Huntington 1991). The list of presidential impeachments include those of Fernando Collor de Mello in Brazil in 1992, Carlos Andrés Pérez in Venezuela in 1993, Ernesto Samper in Colombia in 1996, Joseph Estrada in the Philippines in 2001, Albert Zafy in Madagascar in 1996, Raul Cubas in Paraguay in 1999, Roh Moo-hyun in South Korea in 2004, and Boris Yeltsin in Russia in 1998–99. With the N of presidential impeachments increasing, they are about to become another subfield in the internationally comparative social research. Recently, the first attempt at the comparative studies of impeachments was published (Baumgartner and Kada 2003; Pérez-Liñán 2007). The impeachment of Paksas provides another addition to the case population in this field. So one can ask how the fledgling research on comparative presidential impeachments can help illuminate the Lithuanian case and how analysis of this particular case can contribute to this field.

The impeachment researchers are unanimous in considering the changed international climate as the main cause for the multiplication of presidential impeachments. The international community displays decreasing tolerance for the open, crude violations of the constitutional rules of the democratic process. To be acceptable for this community, many de facto authoritarian regimes simulate democracy. In overthrowing a democratically elected president by the traditional military coup, his political opponents risk international isolation.

In this context, impeachment is a convenient way to legalize the coup. Impeachments substitute for coups as the ultimate method of political struggle. “One could even argue that impeachment is worse than coups in that while coups are clearly counter to democratic principles, impeachment is not, but lends a legal cloak to the protagonists who attempt to topple a president” (Kada 2003: 152). Naoko Kada believes that impeachment has harmful side effects on the development of democracy, weakening the authority of the President. “The problem with impeachment becoming a constitutional coup is that impeachment in these cases undermines not only individual presidents, but the institution of the presidency as well” (Kada 2003: 151).

Similar arguments are advanced by Aníbal Pérez-Liñán who carried out a comparative study of presidential impeachments in Latin America (Pérez-Liñán 2007). He argues that impeachments are the functional equivalent for *pronunciamiento* (a coup, usually with intervention of the military), which until about 1970 was a “normal” feature of the Latin American political landscape. For decades,

the world has received almost no news about such events from Latin America, because they were supplanted by impeachments. Impeachment has the advantage that it allows the saving of the democratic regime, but at the cost of instability of the democratically elected governments. In other words, for the preservation of the democratic regime one may have to pay the price of its lower quality.

In technical terms of constitutional law, Paksas' removal cannot be classified as a coup, because all legal formalities were painstakingly observed. However, the insights from the comparative research on impeachments about the cost of the application of the impeachment procedure may be useful to answer the question which still puzzles many political analysts here in Lithuania: why didn't the impeachment increase the quality of democracy in Lithuania?

The quality of democracy is a complex subject lacking unanimously accepted conceptualization (see e.g. Diamond and Morlino 2005; Przeworski et al. 1999; Rose-Ackerman 2005; Mansbridge 2003; 2004; Powell 2000; 2004; Roberts 2009). Therefore, it is difficult to measure in a valid way. Somewhat simplifying, one can say that quality of democracy means how well a democratic political system works, and that in assessing its performance one can distinguish procedural and outcome (substantive) dimensions. The state of democracy in its procedural dimension is indicated by the rule of law, competitiveness of political process and horizontal and vertical accountability. High corruption and frequent violations of civil rights indicate failures in the rule of law. The disbalance between branches of government (executive, legislative, judiciary) means the lack of horizontal accountability. Instability of the system of political parties indicates low vertical accountability: after losing voter trust, politicians manage to avoid punishment by changing political party membership. Low vertical accountability is indicated also by the failure of elected officeholders to bring under their control public administration. The state of democracy in outcome dimensions may be indicated by how voters are satisfied with the policies and policy outcomes of the politicians that they have elected. The satisfaction is influenced to a significant degree by the responsiveness of the government: how much it is considerate of public opinion and its changes.

The obvious quality deficits of post-communist democracies should not be dramatized in an alarmist fashion. Firstly, many democracy quality problems are common to "new" and "old" liberal democracies. Decreasing responsiveness of national governments may be one of the negative collateral effects of the deepening European integration. Secondly, it is impossible to improve the quality of democracy in all dimensions at once. For example, horizontal accountability can be increased by giving more power to the judiciary and to non-majoritarian agencies. However, this can lead to a decrease of the vertical accountability. There can be hypertrophy of responsiveness contradicting the rule of law and even leading

to the liberal democracy's degeneration into the populist democracy. While bidding for power, populist politicians are over-responsive. There is the awkward philosophical question of how much the overall quality of democracy depends on the quality of government and how much it is conditional on the quality of the citizenry itself.

The real problem about the quality of liberal democracy in Lithuania is indicated by the observation that this country consistently trails behind all or almost all members of the EU on all standard measures of quality of democracy, including level of perceived corruption, trust in the various state institutions (government, legislature, judiciary) and overall satisfaction, measured by Eurobarometer and other surveys. I will limit the scope here to data about the changes in the overall satisfaction with the way democracy works in Lithuania (see fig. 7.1). After going up and stabilizing in 1993–2003, the satisfaction falls for several years to an all-European low after the successful impeachment that was the triumph of liberal democracy in formal terms.

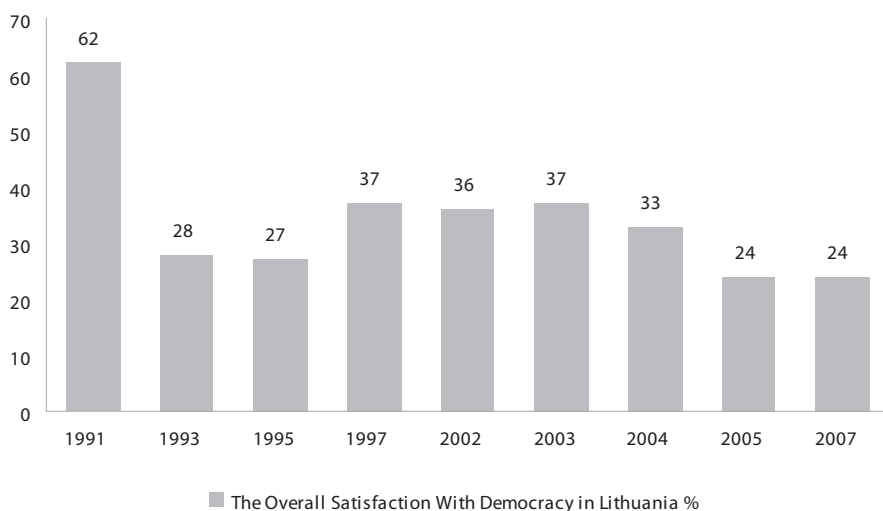


Figure 7.1. **The changes in the overall satisfaction with democracy in Lithuania 1991–2007.** Data source for 1991–2005: Ramonaitė 2006: 101. The data for 2007 are from *Standard Eurobarometer 68* (Autumn 2007).

The most plausible explanation of this paradox is the discrepancy between the inflated expectations of how democracy will perform after the impeachment and its actual performance. The expectations were inflated during the prolonged battle between Paksas' opponents and his supporters in the mass media. The opponents used a moralizing frame where the removal of Paksas was presented as

the key to a pending moral revolution involving the raising of moral standards for the behaviour of politicians and officials. This frame was difficult to avoid, given the scarcity of the evidence to incriminate Paksas transgressions against the law. However, many of Paksas' private statements dispersed with curse words (known from the SSD leakings) were dubious from a moral point of view, prompting his opponents to raise the moral standards and promise something like a "cultural revolution" in Lithuanian politics after his removal. These expectations were bound to end in disappointment, depressing for a long time public perceptions about the state of liberal democracy in Lithuania. The debacle of right-wing populism did not save Lithuania from populism as such, as the parliamentary election in October 2004 brought the near triumph (to remind, 39 mandates in the 144 seat *Seimas*) of the left-wing populist Labour Party of Viktor Uspaskich, that was set up just a year before (in October 2003).

Although ex-communists lost votes, they managed to remain in power by making a left-of-centre coalition with the participation of Uspaskich's party.²⁹ This government coalition remained in power until new elections in October 2008. It was not destabilized by the rearrangement within the coalition in 2006, when the Civic Democratic Party under Viktoras Muntianas, the former "right hand" of Viktoras Uspaskich, broke away from the Labour Party. This dissident party had sufficient votes to help the coalition preserve its majority in parliament. Neither was the ex-communist power damaged by the Prime Minister change in the July 2006, when Algirdas Brazauskas, who resigned for health reasons, was replaced by his party colleague Gediminas Kirkilas. So for some 8 years Lithuania managed to combine uppermost electoral volatility among EU countries with government stability, making void the very concept of vertical accountability. During its last two years of government, this government had no stable majority in *Seimas* and could only remain in power due to the support of its nominal arch-rival – the Conservative party (Homeland Union).

The increasingly peaceful relations between ex-communists and the strongest right-wing party were the legacy of their collaboration during the impeachment of Paksas and may be considered as the manifestation of the fledgling consensus democracy. Alternatively, it could be interpreted as a dysfunction in the vertical accountability chain. It was complicated by another legacy of the impeachment. The leakings of conversations wire-tapped by the SSD into the mass media became standard practice in the political struggle in Lithuania after Paksas' impeachment. Most importantly, wire-tapping started to be practiced on a very broad scale, because there was no effective judicial control of secret intelligence services.

²⁹ The coalition also included the Farmers' and New Democracy Party of Kazimira Prunskienė and former populist coalition partners – Social Liberals of Artūras Paulauskas.

Having their men in the Prosecutor's office and courts, not only the SSD, but also other secret services were able to listen to what they wanted and how much they wanted. According to the data of the European Commission, in 2008 alone Lithuanian law enforcement agencies submitted 85,315 requests to the telecommunications operators to monitor private communication. In Germany, this number was 12,684, in Finland 4,008 and in Denmark 3,599. France (503,437) and the U.K. (470,222) are leaders according to absolute numbers, but this phenomenon may be explained by these countries being one of the targets of Islamic terrorism, while no terrorist activities have been reported in Lithuania since the late 1990s. Counting by the number of requests to monitor private communications per capita, Lithuania is most probably the leader in the EU, with only Bulgaria (131,560 requests per 7.3 million of population) being in close contention for this very dubious "leadership" (see European Commission 2011: 34).³⁰

The use of "compromats" collected by the SSD and even provocations or "sting" operations became a part of political life in Lithuania in blatant contradiction to the expectations of the coming era of chastity and rectitude in Lithuanian politics after the frenzied bashing of Paksas. However, it should be added that meshing secret services into politics is a feature that is not uniquely peculiar to the real workings of liberal democracy in Lithuania. In the summer of 2007, one of the Polish secret services launched a sting operation against the leader of the populist Self-Defence of the Republic of Poland party Andrzej Lepper, who was Minister of Agriculture in the coalition government under Prime Minister Jarosław Kaczyński, in order to implicate him in bribery activities (see Jasiewicz and Jasiewicz-Betkiewicz 2008: 1103–1104). The operation failed, leading to the breakdown of the ruling coalition and the arrest of the Minister of Interior Janusz Kaczmarek, who was accused of leaking information on the sting operation to Lepper. The final outcome was the breakdown of the ruling coalition built by the Law and Justice party, early parliamentary elections in October 2007 and the ending of the coalition government of right-wing populists after only two years.

It remains not definitively clear, whether the operation against Lepper was initiated by the Prime Minister Jarosław Kaczyński (maybe to get leverage instruments over unruly coalition partners), or by the secret services on their own volition. Because the sting operation failed, also Lepper's rectitude remained open to question (before the participation in Kaczyński's government, he was charged with criminal offences in the course of anti-government demonstrations).

³⁰ The reservation about the mere probability of Lithuania's "leadership" in the monitoring of private communications is necessary, because many EU states did not submit the data to the European Commission.

Importantly, several events in Lithuania after Paksas' impeachment more or less closely resembled the Lepper-Kaczmarek episode. Like in Poland, the prime target of the Lithuanian secret services and of the mass media outlets which maintained close relations with them happened to be the politicians of the left-of-centre and right-of-centre populist parties. This may be simply because they are weaker on morality (despite their fierce anti-corruption rhetoric) than their colleagues in the old established parties. But this may also be part of the effort to control and fight populism by the cadres of secret services who excel in patriotism and civic mindedness. This may be a laudable goal and the motives of the initiators of such operations may be idealistic (say, to defend Lithuania against the schemes of Russian imperialism), but they succeed only at the price of collateral consequences contradicting their intended goal. The tutelary or guided democracy under benevolent secret services is low quality democracy because of the obvious accountability problems.

Secret service personnel demonstrated their power in 2007 by derailing the parliamentary investigation on the activities of the SSD by the Lithuanian *Seimas*. This inquiry was initiated after the death of the former high officer of the SSD Vytautas Pociūnas. Under circumstances that still remain not sufficiently disclosed, he perished while on duty on 23.08.2006 in Grodno (Belarus). Only after the election of Dalia Grybauskaitė as the President of Lithuania in May 2009 were steps taken to restore the political control over the SSD that meanwhile had managed to establish itself as a state within the state.

An even more complicated problem remains with the restoration of the balance of power between the branches of government. This is another piece of collateral damage of the successful impeachment to the quality of liberal democracy in Lithuania. I will draw upon the ideas of the German legal theorist and philosopher Carl Schmitt (1888–1985) (see e.g. Dyzenhaus 1997; Kelly 2003; Schwab 1989; et al.) to analyze this side-effect of the impeachment success and to provide the overall judgment of its meaning – were all impeachment events just sound and fury, signifying nothing?

Schmitt's core methodological principle says that the most important insights about the nature of political phenomena are to be gained from the study of these phenomena under exceptional, extreme and decisive conditions (*Ausnahmezustände*). Schmitt assumed that out of the extreme condition can arise an insight "which goes deeper than the clear, everyday situation of the commonly repetitive. The exception is more interesting than the normal case. The normal proves nothing, the exception proves everything. It confirms not only the rule but its existence, which derives only from the exception. In the exception the power of real life breaks through the crust of a mechanism that has become torpid by repetition" (Schmitt 1934: 22). The most famous application of Schmitt's "extremalist"

methodology is his famous definition of sovereignty: "Sovereign is he who decides on the exception" (Schmitt 1934: 11). Schmitt considered the real or alleged inability to cope with the problem of exception as the main flaw of liberal political theory and praxis of parliamentary democracy.

My proposal is to consider the cases of severe conflict between the different branches of government as the stress tests for the institutional dimension of democratic consolidation. A democratic regime can be considered a consolidated democracy when at least one severe conflict between the different branches of government is resolved without violation of formal legality or democracy breaking down. Such tests can be compared to stretching, exposure to high temperature, pressure and other "shock treatments" to which the newly produced goods are exposed in industry and engineering.

To remind the reader (see 3.4), the most influential definition of the consolidated democracy is the metaphorical statement by Juan Linz that democracy is consolidated when it becomes the "only game in town" (Linz 1990a: 156). To express the Schmittian view of democracy consolidation conditions in terms of this metaphor, one should observe how the game is played under extreme conditions, when players have very high incentives (temptation) not to play by the rules, or bend them ("to decide on the exception"). If a political system goes through such procedure with its democracy deepened, it can be considered consolidated. If under extreme conditions it displays the features of delegative democracy or begins the slippery slope towards authoritarianism, this is evidence of its unconsolidated condition.³¹

With its decision of May 25th, 2004, to forbid Paksas from running for public office in Lithuania, the Constitutional Court acted as a Schmittian sovereign to remove the danger that the electorate during subsequent Presidential elections will reverse the Court's decision on the impeachment of Paksas. The episode can be described as a Schmittian "decision on the exception," because technically one can seriously doubt whether the Constitutional Court remained within its prerogative which is not to legislate but to interpret the law (parts of the decision read more as an arcane treatise in hermeneutical philosophy and practical ethics than a legal document). Appealing to the metaphysical, if not mystical "spirit of the constitution" to substantiate its conclusions, the resolution of the Constitutional Court may be of doubtful quality from the technical legal point of view. The decision removed the possibility of having an impeached president elected again in the follow-up election. Evidently, if Paksas were elected again it would mean that

³¹ I do not assume that Schmitt's "extremalism" can be useful only for the problems related to the "horizontal accountability" (political institutionalization), or applicable only to the countries involved in the democratic transitions. There are many kinds of extreme or exceptional conditions which both consolidated and unconsolidated democracies face. They include war and, most topically, terrorism.

the legal system had failed and would discredit the parliamentary process itself, enabling and seducing Paksas himself to “decide on the exception.”

None of the 3 charges against Paksas advanced by the Constitutional Court were sufficient to prosecute Paksas as a criminal. On December 13th, 2005, the Supreme Court satisfied the appeal of Paksas to repeal the judgment of the Appellate court that found him guilty of disclosing a state secret to his election campaign sponsor Borisov. The Supreme Court’s panel of 7 judges ruled that there was not sufficient evidence to convict Paksas for the state secret disclosure. As a matter of fact, on 13.12.2005 the Lithuanian Supreme Court acquitted Paksas of the accusation of disclosing state secrets to his sponsor Yuri Borisov, which was the only one of the three impeachments reasons providing the legal grounds for his criminal prosecution. In 2011, the European Court of Human Rights found that the lifetime prohibition for Paksas to be elected to the parliament is disproportionate and thus violates the European Convention on Human Rights. So the decision of the Constitutional Court was political, justifiable foremostly by the state of emergency.

Carl Schmitt was interested in the institution of the directly elected president as the “Guardian of the Constitution” against the radical right and radical left. He argued that the president should have the right to interpret the law in the case of the conflict of interpretations, or to impose a settlement when no parliamentary majority could be formed (Schmitt 1931). However, I should like to follow the lead of Schmitt’s contemporary and critic Hans Kelsen by maintaining that courts should remain guards of the constitution as its final interpreters (see Kelsen 1968 (1931–1932): 1873–1922). From all “decisions on exception,” those made by the judiciary are much less harmful for the established constitutional order than those made by the executive (Bickel 1986 (1962)).

As the *Seimas* was able to conduct the impeachment to its bitter (for Paksas) end, and the Constitutional Court acted as a Schmittian sovereign by its bold philosophical interpretation of the Lithuanian Constitution, the prospect of Lithuania’s political system entering the slippery slope towards delegative democracy was preempted. Lithuanian democracy has passed the test, which was the hardest up to this time, revealing its remarkably robust state. Importantly, no civil violence happened during the impeachment process. “The crisis flared up at a highly critical moment. At the time of the impeachment process Lithuania entered both the EU and NATO. However, the ability to resolve the situation within the formal procedures and according to constitutional principles demonstrated a maturity of the still young democracy” (Sedelius 2006: 150).

However, the balance between the branches of government remained damaged for a long time, after the Lithuanian Constitutional Court assumed a role of the sovereign. The SSD was encouraged by the politicians themselves to play the autonomous role of the democracy guardian during Paksas’ impeachment, and

did not resign from this role after impeachment was over. It was a similar situation with the Constitutional Court: after it played the sovereign's role accorded by the extreme situation, it was reluctant to return to its standard duties. After impeachment, the Lithuanian Constitutional Court outpaced in its law-making activities its counterparts in other post-communist countries, and established the dominance of the judiciary in the system of separated powers. In some cases, the Lithuanian Constitutional Court made administrative decisions usually belonging to the competence sphere of the executive. In the period between Paksas' removal in April 2004 and the end of the term of Egidijus Kūris as the member and Chairman of the Constitutional Court, the Lithuanian political system was rather similar to what critical political scientists call juristocracy (cp. Sweet 2000; Guarneri and Pederzoli 2002; Hirschl 2004).

Paradoxically, the hypertrophy of the judiciary did not help to enhance the dimension in the quality of democracy known as the rule of law. According to Leonardo Morlino, there is no rule of law, "where there is widespread corruption or organized crime; limited independence of the judiciary; lengthy waits for the resolution of legal disputes; and expensive (and thus exclusive) access to the court system" (Morlino 2004: 22–23). Lithuanian experiences with juristocracy is an intriguing demonstration that independence of the judiciary bordering with unaccountability cannot protect from corruption, lengthy waits for the resolution of legal disputes or ensure cheap access to justice. The transformation of the legal profession into the closed estate did cost much to democracy in Lithuania. After a few scandalous cases demonstrated the ineffectiveness of the law enforcement system, the trust in the courts declined to all-time abysmal lows.³² The reform of the law enforcement system with the special attention paid to courts (the most promising approach – the introduction of jury courts), is perhaps the most pressing and most urgent challenge for the improvement in the quality of liberal democracy in Lithuania.

Thus, although the outcome of the Paksas impeachment possibly saved liberal democracy in Lithuania, it (against the expectation of most observers and participants) did not enhance its quality. The removal of the popularly elected President disequilibrated the balance of power between government branches and increased the influence of the shadow political forces – first of all, security services which

³² Most blatant among them was the "paedophilia scandal" which started in 2009 when Drąsius Kedys who was caught in a custody battle with the mother of his daughter, accused her of prostituting their child to a paedophile ring. After the Lithuanian justice system rejected his requests, he shot the three accused persons and went into hiding, later to be found dead after some 6 months. Then the death of another accused paedophile followed, with Lithuanian justice going from one ineptitude to another, prompting public protests and calls for its entire overhauling. See e.g. "The Biggest Corruption and Pedophilia Scandal in Eastern Europe", <<http://www.veritasll.org/node/8>> 28.04.2011.

accustomed themselves to the role of the autonomous players in Lithuanian politics during the impeachment. The unhappy peculiarity of the stress tests is that they sometimes break the items tested. The damage may be reparable or not, but such tests only rarely improve the quality of the things tested. Those who expected that the impeachment would enhance the quality of democracy assumed the opposite: stress tests are almost always beneficial for democracy. This assumption was false. Lithuanian democracy turned out to be quite an ordinary case: it did not break down, but suffered damage that still remains to be repaired.

Concluding Clarifications and Invitations

In this book I had two goals: (1) to outline a grounded general theory of post-communist transformation, using analytical techniques of qualitative comparative analysis as a framework for the construction of this theory; (2) to advance political economic understanding of a particular case – the Republic of Lithuania. This is the reason for the book's division into two parts. The general theory describes and explains the variation in the outcomes of post-communist transformation after its first decade. The restriction of the temporal scope is not an arbitrary decision, but rather it is grounded in the general argument: as time goes by, the power of the variables describing differences in the initial conditions of post-communist transformation to explain the variegation in its outcomes decreases.

The findings in the pursuit of the first goal were part of the premises for the work on the second, focusing on the present state of the economy and the politics of Lithuania and ultimately this country's prospects. However, because the second goal reaches beyond the temporal range of the first one, the conceptual tools used in the work on the first goal are not sufficient to achieve the latter goal. Therefore, the concepts employed to describe and explain economic and political transformation after the exit from communism divide into two layers.

The first (basic) layer includes concepts used to achieve the first goal. These are: (a) the typologies of the orientations, economic, and political modes of post-communist transformation to describe the variation in its initial conditions; (b) basic typology of capitalism differentiating between its rational entrepreneurial, political oligarchic and statist varieties to describe variation in its economic outcomes; (c) the minimal definition of liberal democracy to differentiate between successful and not so successful political outcomes. Concepts (a)–(c) are used as building blocks to construct conceptual space, which is then systematically spotlighted for conceptually possible, but empirically unobserved cases of post-communist transformation to take into account all its scripts. The second layer is represented by the further differentiations in the basic typologies, distinguishing

several types of rational entrepreneurial capitalism (REC), those of liberal democracy and also types of non-democratic regimes.

The bulk of the concepts from the second layer are used in the case study of Lithuania in the second part of the book. However, the conceptual analysis of capitalism should be evaluated on its own as an effort to bring together and synthesize different approaches in the theorizing of capitalism on the basis of its broadly Weberian understanding. This is the justification for the occasional discussion of some topics (e.g. evolutionary types of REC from former Kondratieff waves), which are not immediately relevant for the generalizations over the first decade of post-communist transformation or the analysis of its vagaries in Lithuania. I am also proposing a more differentiated analysis of the modes of market reforms to break the theoretic stalemate produced by the entrenched dichotomy of shock therapy versus gradualist reforms. My description of the democratic transition and its outcomes contains no conceptual innovations – I am simply using the tools best suited for my purposes from the rich supply of the internationally comparative research on democratization. The importance I attribute to ideological orientations as explanatory variables provides my analysis with a sociological mark of distinction and should help this analytical category, originating in the local Lithuanian research on post-communist (Šaulauskas 1999), to obtain more recognition and use.

In terms of its empirical basis, the book is grounded in secondary data analysis and does not claim any original contribution. Such claims lay foremostly in the areas of the methods for data analysis and theory construction. Statistical analysis is the standard technique in the mainstream research on the causes of variation in the outcomes of post-communist transformation. With my book, I join the, still thin, company of researchers (e.g. Adam et al. 2005; Schneider 2009), who experiment with different versions of QCA in their analytical pursuits in transitology. In this book I apply for like goals its most recent version – multi-value QCA, aided by the TOSMANA software developed by Lasse Cronqvist.

An important advantage of QCA over statistical analysis is the provision of the framework for the systematic counterfactual analysis. All experts in QCA acknowledge the necessity of such analysis when they admonish researchers not to mindlessly conduct Boolean minimization with the inclusion of “empty rows” in data sets, which represent conceptually possible, but empirically unobserved cases. However, according to my knowledge, such analysis is never, or almost never, conducted in the practical research using QCA. In my book, I make an attempt to utilize the underused analytical potential of QCA by grounding the search for generalizations in post-communist transformation in the systematic exploration of the full range of its possibilities by means of counterfactual analysis.

This aspect of the book may be the most controversial, exposing the author to reproach for engaging in speculations instead of serious research. My self-vindication is that all statements about unobserved states of affairs involve speculation, but not all speculations are on a par with one another. My judgments are grounded in the comparisons of the unobserved cases with their most similar observed pendants, and I am explicit in how these most similar cases can be found (by counting Boolean distances). If there are conceptual possibilities of post-communist transformation which are very far away from the empirically observed cases, this is not the author's but reality's fault, and this cannot be readily remedied given the limited applicability of experimental method in social research. This may already count as real achievement, when, by using my procedure (counting Boolean distances), it becomes possible to differentiate among the conceptual possibilities, by distinguishing those where counterfactual judgments have solid foundation given the similarity of their assumed referents to the observed cases from those whose empirical basis is quite tenuous.

I may be in error in my judgments about the most probable scripts of post-communist transformation even for the unobserved cases which are most similar to the observed ones. But this defect is remediable given the readiness of the best experts on observed cases to engage in cooperative enterprise by providing their opinions on the most probable outcome for each of the 47 cases with no observed instances. The consensus of experts, if available, would provide the best possible evidentiary basis for the scripts marked by such consensus, and the absence of such consensus would indicate weak spots not only in my personal knowledge, but also in the state of the art in the research on post-communist transformation. Each researcher with sufficient authority to solicit answers from the leading experts is welcome to launch such a collaborative enterprise in the collective building of a general theory of post-communist transformation, using as questionnaire table 4.1 from this book or its pendant data file.¹

Each reader is invited to do a similar exercise, making any corrections they consider appropriate in this table by revising my codings of initial conditions and outcome variables for specific cases and then deriving by TOSMANA their own version of the patterns of post-communist transformation. At the very least, such an exercise will be useful in making their own opinions about what they believe about post-communist transformation clear and will help to acquire or enhance their skills in QCA. If a reader goes so far as to add new variables or replace some of mine with his/her own, this will be also an exercise in theory construction. This may be even more engaging than playing some computer games.

¹ <http://www.fsf.vu.lt/users/zennor/download/Patterns_of_Post-Communist_Transformation/Postcmtrl05.csv> 23.08.2011.

The very last invitation is to replicate my comparison of the Lithuanian way of post-communist transformation with most similar ways by counting Boolean distances² for the reader's own country or country of special interest to find most similar likes. This may be useful to answer the question about the most credible alternative pathways of transformation in these particular countries, and to discuss the related question of why this country did not follow the way which the reader considers a better or even the best path (or why it avoided a worse or the worst way). This is one of the topics from the second part, where I am asking why Lithuania did not become Baltic Slovenia, and whether Slovenia could become Adriatic Lithuania. The reader may be interested in some different seemingly oxymoronic cases. In this book, they will hopefully find some useful suggestions on how to build and reasonably discuss sensible beliefs about such things, which, according to my argument, are not so arcane after all.

² See formulas (1) and (2) from 4.1.

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Name Index

- Aarebrot, Frank H. 360
Ābols, Guntars 228, 339
Adam, Frane 17, 61, 20, 206, 336, 339
Abramowitz, Moses 111, 339
Adamkus, Valdas 303, 310, 312–313, 316, 320, 322
Aidukaitė, Jolanta 267, 339
Alesina, Alberto 77, 339
Alestalo, Matti 214, 339
Ališauskas, Vytautas 355
Allende, Salvador 72
Amable, Bruno 102, 129, 267, 339, 342
Amsden, Alice H. 77, 339
Andersen, Erik A. 236, 339
Andersen, Tine Haahr 249, 339
Apeldoorn, Bastiaan van 113, 339
Arendt, Hannah 32–34, 73, 339
Arias-King, Fredo 223, 339
Aslund, Anders 47, 77, 129, 130, 220, 237, 339
Auštrevičius, Petras 310
Azguridienė, Guoda 12, 340
Babravičius, Gintautas 310
Bakiev, Kurmanbek 138
Balcerowicz, Leszek 66, 77, 79, 260, 340
Balkelis, Tomas 12, 340
Baltrušaitytė, Giedrė 350
Bandelj, Nina 237, 278, 340
Barauskas, Jūras 25
Baumgartner, Jody 324, 340
Baumol, William J. 97, 340
Baumann, Michael 24
Beckett, Katherine 271, 360
Bednaš, Marijana 356
Belkin, Aaron 17, 196, 358
Belokon, Valeri 231
Bems, Rudolf 259, 359
Bendix, Reinhart 190, 340
Beresnevičiūtė, Vida 355, 360
Berg-Schlosser, Dirk 146, 343
Berglund, Sten 360
Bernotas, Dainius 266–267, 269, 340, 346
Bickel, Alexander M. 331, 340
Bičkauskas, Egidijus 311
Bielasiak, Jack 312, 340
Bielinis, Lauras 313, 340
Bielskis, Andrius 12, 340
Biernacki, Richard 24
Bin Zhou 342
Black, Cyril E. 34, 340
Blair, Margaret 280, 340
Blažienė, Inga 247, 249, 346
Bleiere, Daina 234, 340
Blümle, Gerold 233, 340, 346
Bohle, Dorothee 15, 112–113, 114, 117, 262, 340–341
Bonnell, Victoria 24–25
Borak, Bistra 277, 341
Borak, Neven 277, 341
Borisov, Yuri 313–319, 331
Boudon, Raymond 202, 341
Boyer, Robert 342
Bratton, Michael 36, 341
Brazauskas, Algirdas 275–276, 299, 306, 309, 313, 316, 322, 327
Brezhnev, Leonid 36, 169
Brezis, Elise S. 120, 341
Brink ten, Tobias 118, 341
Bruszt, László 277, 357
Brzechczyn, Krzysztof 11, 341

- Brzezinski, Zbigniew 32, 204, 341, 345
 Buchen, Clemens 20, 107, 206, 253, 280, 341
 Bučar, Bojko 288, 341
 Budina, Nina 213, 341
 Bumblauskas, Alfredas 230, 341
 Burgess, Robert 259–260, 341
 Butulis, Ilgvars 340
 Byrne, David 356
 Callinicos, Alex 32, 341
 Camerer, Colin F. 233, 341
 Čaplikas, Algis 310, 311
 Caramani, Daniele 201, 341
 Carothers, Thomas 137, 341
 Carroll, John W. 188, 341
 Catherine II 229
 Ceaușescu, Nicolae 90
 Čekanavičius, Linas 266, 343
 Cerar, Miro 251, 342
 Cernat, Lucien 117, 342
 Chaponnière, Jean-Raphael 55, 342
 Clark, Terry D. 296, 342
 Clemence, Richard V. 357
 Cliff, Tony 32, 342
 Cling, Jean-Pierre 342
 Cohen, Stephen F. 17, 34, 196, 342
 Collier, David 134, 342
 Collor de Mello, Fernando 324
 Corsellis, John 284, 342
 Cronqvist, Lasse 17, 336
 Crouch, Colin 73, 280, 342
 Cubas, Raul 324
 Dahl, Robert 74, 133, 343
 Damijan, Jože P. 273, 288, 343
 Dean, Stephen John 25
 Degutis, Mindaugas 312, 343
 De Melo, Martha 60, 214–215, 343
 De Meur, Gisele 191, 343, 356
 Den Xiaoping 50, 54
 Denizer, Cevdet 215, 343
 Denzau, Arthur T. 233, 343
 Derluguian, Georgi M. 17, 196, 343
 Dermastia, Mateja 245, 343
 Diamond, Larry 137, 325, 343
 Dixon, Adam 106, 343
 Djilas, Milovan 32, 343
 Donskis, Leonidas 318, 343
 Dore, Ronald Ph. 256, 343
 Drahoukoupil, Jan 15, 20, 112, 114, 261–263, 292, 343
 Dreifelds, Juris 234, 343
 Drnovšek, Janez 275–276
 Durnev, Art 129, 343
 Dyzenhaus, David 329, 344
 Eamets, Raul 248, 344
 Earle, John S. 345
 Earman, John 192, 193, 344
 Ehrlich, Laura 265, 344
 Eisenstadt, Shmuel N. 36, 344
 Ekiert, Grzegorz 348
 Elgie, Robert 355, 359
 Eliot, Thomas Stearns 11
 Engerman, Stanley L. 131, 344
 Ericson, Richard 42, 126, 344
 Esping-Andersen, Gøsta 104, 267–268, 344
 Estrada, Joseph 324
 Ewijk, Casper van 98, 345
 Eyal, Gil 96, 119, 345
 Feldmanis, Inesis 340
 Feldmann, Magnus 20, 107, 206, 243, 250, 278, 286, 345
 Fenger, Menno H. J. 268, 345
 Ferguson, Niall 17, 196, 345
 Fabrizio, Stefania 259, 341
 Ferrar, Marcus 284, 342
 Fink-Hafner, Danica 288, 345, 355
 Fortin, Jessica 136, 345
 Foucault, Michel 39
 Frank, Peter 295, 345
 Freeman, Christopher 98, 345
 Friedrich, Carl J. 32, 345
 Friedman, Milton 72, 261, 341
 Fritz, Verena 127, 345
 Frydman, Roman 220, 345
 Fuchs-Schuendeln, Nicola 79, 339
 Fultz, Elaine 350
 Gaidar, Yegor 87
 Gamsachurdia, Zviad 161
 Ganev, Venelin 120, 345
 Ganasauskas, Edmundas 316, 345
 Garton Ash, Timothy 53, 91, 345
 Gebel, Michael 349
 Gelb, Alan 215, 343
 Gentvilas, Eugenijus 310, 313
 Giedraitis, Vincentas 295, 345
 Giertych, Roman 300
 Gingerich, Daniel W. 104, 109, 346
 Glaveckas, Kęstutis 310
 Glymour, Clark 344

- Goertz, Gary 17, 196, 345
 Goldschmidt, Nils 340
 Goodenough, Ward Hunt 32, 345
 Goodman, Nelson 188, 193, 346, 194
 Gorbachev, Mikhail 17, 42, 72, 89, 123, 169, 196, 350
 Gourevitch, Peter A. 258, 346
 Gregorič, Aleksandra 278, 357
 Greskovits, Bela 15, 112–114, 117, 262, 267, 340, 346
 Griffin, Larry J. 355
 Gronow, Jukka 25
 Gross, Karl G. 228
 Grover, Alexander 204, 346
 Gruževskis, Boguslavas 247, 249, 346
 Grybauskaitė, Dalia 329
 Guarneri, Carlo 332, 346
 Guogis, Arvydas 266–267, 269–270, 340, 346
 Gudžinskas, Liutauras 12, 346
 Güth, Werner 233, 346
 Gylys, Povilas 216, 346
 Haavisto, Tarmo 214, 346
 Hall, Peter A. 15–16, 20, 95, 102, 104, 107, 109, 131, 206, 242, 244–245, 250, 253, 258, 266–267, 272, 342, 346
 Hallart, Ludwig 228
 Hallart, Magdalene Elisabeth 228
 Hallagan, William 235, 346
 Hanke, Robert 348
 Hansen, John 204, 213, 346
 Hansen, Martin Eggert 249, 339
 Hanson, Stephen E. 348
 Harnack, Theodosius 227, 346, 354
 Harris, Erika 276, 346
 Harris, Marvin 32, 346
 Havrylyshyn, Oleh 115, 122, 129, 347
 Hayek, Friedrich 261, 311
 Hellén, Tomas 360
 Hellman, Joel S. 52, 83, 85, 122, 129, 347
 Helmer, Olaf 193, 347,
 Hildebrand, Bruno 256
 Hindsgaul, Dan 352
 Hirschl, Ran 332, 347
 Hirschman, Albert O. 202, 347
 Hitler, Adolf 71, 318
 Holm-Pedersen, Mikkell 249, 339
 Hood, Neil 352
 Hough, Jerry F. 34, 347
 Howard, Marc M. 137, 347
 Huang, Yasheng 118, 347
 Huntington, Samuel P. 89–91, 138–139, 324, 347
 Hus, Jan 227
 Inglehart, Ronald 224, 347
 Ivančić, Angela 251
 Iwasaki, Ichiro 82, 123, 347
 Jablonskis, Linas 25
 Jackson, Gregory 342
 Jankauskas, Algimantas 12, 312, 347, 350
 Janša, Janez 288
 Jasiewicz, Krzysztof 328, 347
 Jasiewicz-Betkiewicz, Agnieszka 328, 347
 Jens, Henrik 249, 339
 Johannsen, Lars 352
 Jokisipilä, Markku 350
 Jokubaitis, Alvydas 271, 347
 Jovaiša, Liudas 355
 Jowitt, Kenneth 35, 347
 Junokas, Valentinas 322
 Jurančič, Slavica 356
 Jurkynas, Mindaugas 312, 347
 Juska, Arunas 209, 347
 Jutila, Matti 350
 Kaasik, Ülo 344
 Kaczmarek, Janusz 328–329
 Kaczyński, Jarosław 22–23, 160, 198, 300–301, 303, 318, 321, 328
 Kaczyński, Lech 22–23, 160, 198, 300–301, 303, 305, 318, 321
 Kada, Naoko 324, 340, 347
 Kádár, János 80, 124
 Kadžiulytė, Giedrė 25
 Kahk, Juhan 216, 348
 Kala, Ants 213, 348
 Kallas, Siim 213, 348
 Kallaste, Epp 246, 348
 Kalvet, Tarmo 263, 348, 358
 Karimov, Islam 137
 Karlsson, Mats 214, 223, 359
 Kasekamp, Andres 219, 348
 Kasiliauskas, Nerijus 248, 348
 Kasnauskienė, Gindra 266, 343
 Kašauskienė, Vanda 303, 348
 Kattel, Rainer 358
 Kaufmann, Daniel 122, 347
 Keating, Michael 25
 Kebich, Vyacheslav 159
 Kedys, Drąsius 332

- Kelly, Duncan 329, 348
 Kelsen, Hans 331, 344, 348
 Kenworthy, Lane 104, 250, 348
 Keynes, John Maynard 102
 Khrushchev, Nikita 36
 Kilis, Robert 352
 King, Lawrence P. 107, 119, 120, 348
 Kingston-Mann, Esther 231, 348
 Kirkilas, Gediminas 301, 327
 Kirsebom, Dag 204, 348
 Kitschelt, Herbert 38–39, 41, 218, 348
 Klaus, Václav 78, 260
 Kliemt, Hartmut 233, 346
 Klump, Rainer 233, 340, 349
 Knell, Mark 108–110, 349
 Kochanowicz, Jacek 339
 Kogan, Irena 251, 349, 356
 Kohl, Heribert 248, 349
 Kołodko, Grzegorz W. 55, 79, 349
 Kondratieff, Nikolai 98
 Kornai, János 42, 83, 267, 349
 Kornat, Marek 11, 349
 Korže, Uroš 289
 Kováč, Michal 94
 Kreuzer, Marcus 298, 349, 354
 Krupavičius, Algis 25, 207, 250, 309, 349
 Krupnikov, Georgij 321
 Kubilius, Andrius 301, 309, 312
 Kučan, Milan 50, 275–276
 Kuhnle, Stein 339
 Kumar, Krishan 73, 75, 349
 Kūris, Egidijus 332
 Laar, Mart 223, 237, 261, 301, 341, 349
 Lahovnik, Matej 245, 349
 Landsbergis, Vytautas 81, 301, 306, 307, 309, 311, 312
 Lane, David 110, 125, 250, 254, 257, 341, 349, 353, 357, 360
 Lange, Marc 190, 349
 Laučius, Vladimiras 355
 Laurénas, Vaidutis 25, 207, 270, 298, 317, 349
 Laurinavičius, Česlovas 307, 350
 Laurinkus, Mečys 317, 322–323
 Lauristin, Marju 66, 204, 350
 Lazutka, Romas 268–269, 350
 Lebow, Richard N. 17, 196, 350
 Ledeneva, Alena 37, 350
 Lehti, Marko 203, 350
 Lenski, Gerhard 98, 350
 Leonavičius, Vylius 25, 268, 350
 Lepper, Andrzej 300, 328–329
 Levitsky, Steven 134, 137, 342, 350
 Levy, Jack S. 17, 196, 345
 Lewin, Moshe 34, 350
 Li, Kan 343
 Lieven, Anatol 210, 216, 350
 Lijphart, Arend 135–136, 350
 Lindemann, Kristina 251, 253, 356
 Linden van der, Marcel 355
 Lindstrom, Nicole 278, 350
 Linz, Juan J. 32, 89–91, 134–135, 138–139, 208, 303, 330, 350–351
 Lipton, David 351
 Litan, Robert E. 340
 Lobe, Bojana 195, 356
 Lopata, Raimundas 316–317, 351
 Louçã, Francisko 98, 345
 Lukashenko, Aleksandr 94, 137, 159
 Lukošaitis, Alvidas 207, 250, 309, 349
 Lukšič, Igor 251, 281, 351
 Luong, Pauline Jones 48, 351
 Luper, Mark 35, 351
 Mackie, John 61, 351
 Mailath, George J. 233, 351
 Makarovič, Matej 339
 Maksvytis, Jonas 306
 Manin, Bernard 355
 Mansbridge, Jane 325, 351
 Mansfeldova, Zdenka 348
 Marangos, John 72, 351
 Maravall, Jose M. 354
 Marcic, René 348
 Markovits, Andrei S. 25
 Markowski, Radosław 160, 348, 351
 Martinaitis, Žilvinas 250, 351
 Marx, Karl 31, 33, 97–101
 Masiulis, Eligijus 310–311
 Masso, Jaan 248, 344
 Masten, Igor 288
 Matonis, Audrius 316–317, 351
 Matonytė, Irminda 207, 351
 Mattusch, Katrin 225–226, 231–232, 351
 Mečiar, Vladimír 71, 94, 122, 169, 180, 323
 Mencinger, Jože 277–278, 283, 289, 352
 Mendelev, Dmitri 188
 Menem, Carlos 323
 Merton, Robert King 190
 Michalopoulos, Konstantine 346

- Miłosz, Czesław 11, 352
 Milošević, Slobodan 88, 94, 129
 Mitchell, Sandra 190, 193–194, 344, 352
 Moestrup, Sophia 355
 Molina, Oscar 250, 352
 Moore, Barrington Jr. 34, 352
 Morck, Randall 343
 Morlino, Leonardo 325, 332, 343
 Mrak, Mojmir 341, 343, 352, 357
 Mrkaič, Mičo 288
 Munck, Gerardo L. 93, 352
 Muntianas, Viktoras 327
 Myant, Martin 15, 110, 112, 114, 132, 262,
 341, 349, 352, 357, 360
 Mygind, Niels 213, 217–218, 352
 Naughton, Barry 118, 352
 Naujokaitė, Ingrida 350
 Nazarbajev, Nursultan 122, 137
 Nerling, Mark 227, 352
 Neurath, Otto 52
 Nevinskaitė, Laima 355, 360
 Nissinen, Marja 236, 252
 Nölke, Andreas 116, 124, 244, 260, 352
 Noelke, Clemens 349
 Nørgaard, Ole 213–214, 217–218, 220, 236,
 352
 North, Douglass 233, 343
 Notten, Tom 345
 Novagrockienė, Jūratė 309, 353
 Nove, Alec 46, 253
 O'Donnell, Guillermo 89, 134, 323, 353
 Oi, Jean C. 82, 353
 Ojulang, Kristiina 203, 353
 Orbán, Viktor 23, 301
 Ost, David 251, 302, 353
 Ozolas, Romualdas 311
 Paas, Tiiu 263–264, 354
 Paknys, Mindaugas 355
 Paksas, Rolandas 22–23, 159, 207, 285, 298,
 299–301, 303–307, 310–332, 342, 343, 356
 Panagiotou, Ritsa A. 213, 354
 Parker, Ian 282, 354
 Parts, Juhan 298–299, 303, 318, 321
 Paulauskas, Artūras 298–299, 310, 312,
 314–315, 321–322, 327
 Pavelič, Ante 284
 Pederzoli, Patrizia 332, 346
 Pereira, Luiz C. 77, 354
 Pérez, Carlos Andrés 324
 Pérez-Liñán, Aníbal 324, 354
 Peterle, Lojze 21, 276, 289
 Petrauskas, Rimvydas 355
 Petersen, Roger 227, 354
 Pettai, Vello 69, 297, 298, 349, 354
 Pezdir, Rado 288, 354
 Pickel, Andreas 80, 354
 Piłsudski, Józef 168
 Pinochet, Augusto 168
 Piroška, Dóra 278, 350
 Pivoras, Saulius 227, 354
 Plakans, Andrejs 227, 354
 Platzter, Hans-Wolfgang 248, 349
 Plitt, Hermann 227, 354
 Pociūnas, Vytautas 329
 Polanec, Sašo 288
 Polischuk, Leonid 129, 354
 Pomfret, Richard 124, 354
 Pontusson, Jonas 104, 113, 270, 354
 Popov, Vladimir 127, 354
 Popper, Karl 33, 52, 311, 354
 Porter, Michael E. 261, 354
 Potnin, Anatolij 316
 Potocka, Magdalena 73, 357
 Powell, G. Bingham 325, 354
 Poznanski, Kazimierz 77, 278, 354
 Pranevičiūtė, Jovita 296, 342
 Pravda, Alex 360
 Prekevičius, Nerijus 296, 342
 Prigge, Williams 218, 355
 Primož, Kristan 339
 Protsyk, Oleh 304, 355
 Prunskienė, Kazimira D. 321, 323, 327
 Przeworski, Adam 89, 169, 272, 325, 354, 355
 Putin, Vladimir 125
 Putinaitė, Nerija 12, 355
 Putnam, Robert 230, 355
 Quint, Peter E. 360
 Radžvilas, Vytautas 318
 Ragin, Charles C. 60–61, 191, 195, 196, 201,
 355–356
 Raila, Eligijus 230, 355
 Ramet, Sabrina 288, 355
 Ramonaitė, Ainė 207, 299, 309, 326, 355, 360
 Randveer, Anu 344
 Rapaczynski, Andrzej 345
 Rastenienė, Aušra 345
 Raun, Toivo U. 228, 355
 Rawls, John 272, 356

- Rawski, Thomas G. 50, 356
 Reijnders, Jan 345, 351
 Remeikis, Tomas 41, 356
 Repše, Einars 223, 298–299, 303, 318, 321
 Rescher, Nicholas 193, 347
 Rhodes, Martin 250, 352
 Rihoux, Benoît 191, 195, 356
 Rizman, Rudolf M. 276, 356
 Roberts, Andrew 25, 136, 325, 356
 Robin, Theobald 36, 256
 Rodrik, Dani 75, 356
 Roe, Mark J. 340
 Roessler, Philip G. 137, 347
 Roh Moo-hyun 324
 Rojec, Matija 278, 278, 341, 343, 352, 356, 357
 Rončević, Borut 339
 Rondinelli, Dennis A. 352
 Rose-Ackerman, Susan 325, 356
 Ross, Darius J. 25
 Roth, Guenther 36, 356, 359
 Rothacher, Albrecht 220, 356
 Rubavičius, Vytautas 207, 356
 Rugraff, Eric 279, 356
 Runciman, Walter G. 202, 356
 Rutkienė, Aušra 268, 350
 Saakashvili, Mikheil 138
 Saar, Ellu 231, 263, 356
 Saavalainen, Tapio 213, 356
 Šabajevaitė, Lidija 12, 207, 358
 Sachs, Jeffrey 21, 77, 78, 127, 289, 351, 356
 Saddam, Hussein 91
 Sakalas, Vytautas 314
 Samper, Ernesto 324
 Sanginetti, Julio Maria 323
 Šaulauskas, Marius Povilas 34, 42, 50, 66, 306, 358
 Savukynas, Virginijus 316, 356
 Savvateev, Alexei 129, 354
 Scaff, Lawrence A. 25
 Schambeck, Herbert 348
 Schankerman, Mark 347
 Schauenberg, Bernd 340
 Schedler, Andreas 139, 356
 Schluchter, Wolfgang 360
 Schmidt, Rudi 357
 Schmitt, Carl 23, 329–331, 348, 353, 356, 357
 Schmitter, Philippe C. 89, 353
 Schneider, Carsten Q. 17, 196, 336, 357
 Schramm, Carl J. 340
 Schumpeter, Joseph A. 97–99, 133, 357
 Schwab, George 329, 357
 Sedelius, Thomas 331, 357
 Senger, Harro von 340
 Sepp, Jüri 263, 254, 354
 Share, Donald 91, 357
 Shen, Raphael 214, 357
 Shevardnadze, Eduard 138
 Shields, Stuart 302, 357
 Shinn, James J. 256, 346
 Shleifer, Andrei 129, 357
 Sikk, Allan 298, 357
 Silva-Jáuregui, Carlos 341, 343, 352, 357
 Simoneti, Marko 278, 289, 357
 Simutis, Anicetas 231, 357
 Smelser, Neill 348
 Smetona, Antanas 168, 197
 Smolar, Aleksander 37, 357
 Snieckus, Antanas 42, 219
 Snyder, Richard 36, 357
 Sokoloff, Kenneth L. 131, 344
 Sonin, Konstantin 129, 357
 Sonnet, John 196
 Soós, Károly A. 220, 357
 Sorsa, Pírta 204, 213, 346
 Soskice, David 15–16, 95, 102, 107, 109, 242, 245, 253, 258, 266–67, 272, 346
 Sotvarienė, Ramunė 317, 357
 Srholec, Martin 108–110, 349
 Stalin, Joseph 35–37, 70
 Stark, David 277, 357
 Stepan, Alfred 91, 208, 351
 Sterbling, Anton 351
 Stiglitz, Joseph E. 77, 357
 Stokes, Susan 355
 Stranga, Aivars 340
 Streeck, Wolfgang 102, 342, 358, 360
 Šušteršič, Janez 288, 291, 356, 358
 Sutton, John R. 358, 271
 Swaan, Abram de 271, 358
 Swedberg, Richard 348
 Sweet, Alec S. 332, 358
 Szelényi, Iván 16, 96, 119–121, 124, 279, 345, 348, 358
 Szelényi, Szonja 358, 119
 Taagepera, Rein 218, 282, 298, 358
 Taljūnaitė, Meilutė 251
 Tamm, Dorel 358

- Tarr, David 346
 Tarvel, Enn 216, 348
 Taube, Günther 213, 359
 Taylor, Lance 339
 Tenev, Stoyan 215, 343
 Terk, Erik 236, 239, 264, 354, 358
 Tetlock, Philip E. 17, 196, 358
 Teune, Henry 272, 355
 Thatcher, Margaret 222
 Thatcher, Mark 348
 Therborn, Göran 104, 358
 Tiits, Marek 263, 294, 358
 Tobien, Alexander von 227, 229, 230, 358
 Toka, Gábor 68, 348, 358
 Tomšič, Matevž 339
 Townsley, Eleanor 345
 Trapenciere, Ilze 251
 Tracevskis, Rokas M. 203, 358
 Trotsky, Leon 32
 Tudman, Franjo 71, 94, 134, 169, 323
 Turner, Bryan S. 25
 Ulmanis, Karlis 168
 Umek, Uroš 21, 289
 Urbanavičius, Dainius 307, 359
 Ūselis, Domas 269, 346
 Uspaskich, Viktor 209, 299, 327
 Vagnorius, Gediminas 222, 312
 Vahlne, Jan-Erik 352
 Vaičaitis, Vaidotas A. 314, 315, 323, 359
 Valantiejus, Algimantas 12, 359
 Valenzuela, Arturo 351
 Vanags, Alf 259, 359
 Van Arkadie, Brian 214, 223, 359
 Vanberg, Viktor 233, 359
 Vanhuysse, Pieter 84, 267, 359
 Vasle, Boštjan 356
 Vetlov, Igor 249, 259, 359
 Virbickas, Ernestas 249, 359
 Vihalemm, Peeter 66, 204, 350
 Vico, Giambattista 190, 195
 Vilpišauskas, Ramūnas 280, 359
 Vinogradnaitė, Inga 355, 360
 Vitkus, Gediminas 25
 Vliegenthart, Arjan 16, 20, 116, 124, 244, 260, 352
 Vogel, Steven K. 107, 359
 Volkov, Vadim 127, 359
 Vona, Gábor 23
 Wagemann, Claudius 17, 196, 336, 357
 Walder, Andrew 35, 359
 Walle, Nicolas van de 36, 341
 Walmsley, Roy 272, 209
 Ward, Benjamin 55, 359
 Way, Lucan A. 137, 350
 Weber, Max 19, 35–37, 51, 96, 226–227, 234, 348, 351–352, 359
 Weber, René 213, 359
 Webermann, Otto A. 227, 228, 359
 Western, Bruce 271, 360
 Whitehead, Laurence 353
 Wiesenthal, Helmut 80, 354
 Willumsen, Helle 352
 Wilson, Jeanne 82, 360
 Windolf, Paul 80, 360
 Winiecki, Jan 42, 360
 Wittfogel, Karl A. 33
 Wittich, Claus 359
 Wittram, Reinhard 359
 Woolfson, Charles 246, 248, 348, 360
 Xiao, Yuan 259, 341
 Yamamura, Kozo 102, 358, 360
 Yavlinski, Grigory 87
 Yeung, Bernard 343
 Yeltsin, Boris 87, 89, 120, 125, 130, 134, 194, 324
 Yu-Shan Wu 355
 Zabarauskaitė, Rasa 249, 360
 Zafy, Albert 324
 Zajc, Drago 276, 360
 Zakaria, Fareed 53, 360
 Zatonskaja, Ana 316
 Zhirinovskiy, Vladimir 310
 Zhivkov, Todor 90
 Zielonka, Jan 342, 360
 Žilys, Apolonijus 12, 360
 Žiliukaitė, Rūta 207, 355, 360
 Zinzendorf, Nicholas 227–228
 Zipprian, Heinz 351
 Žižek, Slavoj 282, 354
 Zuccheli, Claudio 204, 348
 Zunda, Antonijs 340
 Zuokas, Artūras 310
 Žvaliauskas, Giedrius 309, 360

Subject Index

- Abkhazia 163, 296
- Albania 45, 54, 57, 76, 87, 93, 123, 142, 145, 147, 152–153, 155, 158, 161, 167, 180, 183–187, 210, 215, 290, 304
- Argentina 90, 323
- Armenia 45, 48, 52, 57, 83, 87, 93, 122, 123, 142, 145, 147–148, 152, 153–155, 158, 161, 167, 180, 183, 187, 215, 304
- Australia 102
- Austria 102, 172, 264, 284
- Authoritarian political regime 14, 16, 29, 44–45, 48–49, 56, 63, 66, 71, 89–95, 115, 123, 125, 128–129, 133–138, 141, 144, 154, 165, 167–169, 172, 174, 179, 181, 189, 197, 202–203, 285, 324, 330
 - closed 137–138
 - electoral competitive 122, 137–138
 - hegemonic competitive 122, 137–138
 - liberal 53
 - sultanistic 137–138
- Azerbaijan 45, 52, 57, 83, 87, 93, 122–123, 142, 145, 147–148, 152–153, 155–158, 161, 167, 180, 183–187, 215, 304
- Baltic States 13, 16, 19–22, 43, 72, 78, 93, 111, 113–114, 116, 118, 124, 126, 130, 139, 164, 179, 203–242, 246, 249–269, 272–274, 277, 283–284, 289–295, 297–305, 319. *See also*: Estonia; Latvia; Lithuania
- Belgium 102, 264, 284
- Boolean minimization 17–18, 140, 148–149, 181, 196, 336
- Boolean distances 18, 65, 146–149, 151, 172, 178–179, 182, 195, 207, 215, 282, 337–338
- Belarus 44–45, 47–48, 50, 52, 57, 76, 82–83, 87–88, 93–94, 111, 114, 123–124, 126–127, 130, 132, 137, 142, 145, 147, 152–153, 156, 159, 167, 171–173, 183–187, 201, 206, 210, 215, 304, 329
- Bosnia and Herzegovina 13, 55, 71, 304
- Bulgaria 41, 45, 50, 52, 57, 72, 76, 83, 87, 90–91, 93, 113–114, 122–123, 126, 130, 142, 145, 147, 154, 177–180, 183–187, 194, 204, 210–211, 215, 244, 254–255, 257, 262–264, 283, 304, 328
- Business cycles 15, 98–99
 - Juglar cycles 98
 - Kitchin cycles 98
 - Kondratieff cycles 15, 98–103, 105, 105–107, 336
- Canada 102
- Causation 13, 17, 56, 61, 148–149, 190–193, 197–198, 238, 240, 336
- Capitalism 13, 15–20, 29, 32, 35, 43–46, 50–52, 56–59, 62–63, 67, 72, 74–75, 82–85, 87–89, 95–132, 136, 140–142, 186, 189, 192, 196–198, 201–295, 314, 335–336
- Fordist 15, 100, 102, 105–106
- liberal democratic 17–18, 56–59, 62, 140–148, 151–161, 166–168, 172–175, 179–180, 182–183, 189, 192, 196, 197
- local individualist 100
- local corporate 100
- national corporate 100

- political oligarchic (POC) 15–16, 18,
29, 62–63, 87–88, 95–97, 119–132,
140–142, 144, 158–159, 162, 165–166,
168–170, 172, 174, 177–179, 184–186,
196–198, 290
- post-Fordist transnational 15, 100, 102,
105
- rational entrepreneurial (REC) 15–17, 20,
29, 43–44, 59, 62, 77–78, 82, 86–88,
95–118, 123–125, 128–129, 132–133,
140–142, 148, 150, 162–180, 183–184,
192, 195–198, 236, 238, 240–241, 244,
249, 258–269, 289, 291, 335–336
- coordinated market economy (CME)
15, 21–22, 102–110, 116–118,
124, 132, 136, 206, 235, 242–246,
251–256, 260, 267, 269–272, 276,
280, 286–292
- dependent market economy (DME)
16, 20–21, 116–118, 124, 131, 205,
242–246, 260–264, 267, 269, 287,
289; Weberian-Friedmanian 16,
20–21, 114, 116, 242, 253–269,
287–291, 294–295; Weberian-
Porterian 16, 20–21, 114, 118, 124,
261, 267–268, 287
- liberal market economy (LME) 15, 20,
102–111, 116–118, 124, 132, 136,
242, 246, 248–249, 251–254, 256,
258, 266–267, 269–272, 291
- state 15–18, 29, 32, 56, 59, 63, 95–96,
119–132, 140–142, 144, 150, 158, 162,
168, 170, 172, 174, 177, 182, 186–187,
196, 198, 335
- Capitalist world system 15–16, 21, 95,
111–118, 131–132, 242–295
- core 15, 21, 112–113, 115, 117–118, 131,
245–246, 253–260, 269, 280, 287, 292
- periphery 15–16, 71, 95, 112, 115–116,
253, 257, 269, 293–294
- semi-core 15–16, 21, 112–118, 131, 160,
242–265, 269, 287, 292
- semi-periphery 16, 95, 112, 115–116, 242,
262–263, 280, 292–293
- Catholicism 20, 22, 208, 216, 225–227, 230,
232, 234, 240–241, 272, 289, 300
- Czechnya 130, 150
- Chile 72, 92, 169
- China 12, 14, 34, 43–47, 49–51, 53–55,
58, 73–75, 80–82, 85, 88, 93, 117–118,
121, 124, 126, 142, 145, 147–148, 153,
155–156, 164–165, 167–168, 170, 174,
177, 179, 181, 183–187, 200, 215, 244,
254–255, 257
- Coloured revolutions 56, 88, 94, 122, 129,
138, 159–162, 290
- Communism
as modernizing society 35–38, 40, 68–69,
73, 162–163, 216, 218–219
as neo-traditionalist society 35, 37
as totalitarianism 32–33, 35, 37–38
bureaucratic authoritarian 14, 38–41,
218–219, 274
ideal type of János Kornai 42–43, 46, 83,
90
Marxist-Leninist ideology 12, 42, 45–46,
48–49, 75
national 14, 23, 38–41, 91, 159, 216,
218–220, 223, 274–275, 282–284,
289–290, 297, 300–301, 303
patrimonial 14, 35–42, 69, 90, 274–275,
283
- Consolidation of democracy 22, 89, 138–139,
297, 315, 318–333
stress test 23, 329–333
- Contautograd 57–58, 143, 155–156,
167–168, 183–187
- Contautorshock 57–58, 143, 155–156,
167–168, 183–187
- Contpactgrad 57, 141, 143, 152–153,
155–159, 163, 183–187
- Contpactmin 57, 141, 143, 152–153,
155–159, 163, 183–187
- Contpactpart 57, 143, 152–153, 155,
157–158, 163, 183–187
- Contpactshock 57, 143, 152–153, 155,
157–160, 163, 183–187, 197–198
- Contrefgrad 57, 143, 155, 167, 170–172, 177,
183–187
- Contrefshock 57, 143, 155, 167, 170–172,
177, 183–187, 194
- Contrevolgrad 57, 143, 153, 155, 157–158,
161–161, 163, 170, 183–187
- Contrevolshock 57, 143, 155, 161, 167, 170,
183–187

- Corporate finances and governance 74,
102–103, 116–117, 244–245, 254–258
- Corporatism 75, 102–103, 114, 116–117,
132, 243, 250–251, 266–268, 270, 280,
288–290, 336–338
- Counterfactual assumptions 17–18, 21, 29,
59–60, 63–65, 133, 140, 149–182, 192,
195–196, 220, 287, 290
- Croatia 41, 45, 58, 71, 87, 93–94, 114, 123,
134, 142, 145, 147, 155, 156, 167, 169,
172–173, 177–179, 183–187, 215, 219,
263, 273, 284, 304, 323
- Cuba 44–45, 47–48, 52, 64, 189, 191–192
- Czechoslovakia 34–35, 38, 41, 79, 91–92, 219
- Czech Republic 45, 48, 54, 58, 71, 78–79, 87,
90–93, 113, 123, 126, 130, 142, 145–147,
153, 155–156, 163, 165, 167, 183–187,
210, 215, 217, 219, 227, 239, 245, 247,
249–250, 252, 254–255, 257, 259–260,
262, 264, 273, 296, 304, 312
- Cyprus 264
- Democracy
 consensus 136, 327
 delegative 71, 122, 134, 321, 323, 330–331
 electoral 94, 134, 169, 172, 323
 ethnocratic 93, 134, 162, 166, 208–209,
 220
 illiberal 161, 170, 177
 liberal 13, 17–18, 23, 71, 74, 92–94, 129,
 133, 135–140, 164–166, 172–173,
 178–179, 187–189, 209, 280–281,
 318–319, 324–333, 335–336
 majoritarian (adversary) 136
 parliamentary 92, 135, 276, 304–305, 307,
 330
 presidential 92, 134–135, 139, 303–304,
 307
 semi-presidential 92, 134–135, 276, 297,
 303–305, 307
- Denmark 67, 102, 202, 225, 231, 254–255,
257, 264, 272, 328
- East Germany 34, 38–39, 41, 45, 54, 58, 79,
80, 92, 142, 145–146, 153, 155–156, 167,
180, 183–187, 219, 238
- Education and training (skills formation)
 20, 102–104, 116, 118, 244, 251–253, 256,
 266–269, 271, 293–294
- Elite pact 14, 23, 53, 91–92, 147–148,
158–165, 197–198, 223, 238, 285–291,
301, 306
- Estonia 19–23, 34, 41–42, 45, 58, 69, 75,
78, 87, 90, 93, 110–111, 123, 125–126,
130, 134, 142, 145, 146, 149, 152–153,
155–156, 162, 164, 166–167, 177, 179,
183–197, 202–305, 312, 318–319
 culture 19, 69, 162, 203, 222–235
 economy 19–21, 78, 87, 110–111, 126,
 130, 145–146, 149, 152–156, 162, 164,
 166–167, 177, 179, 183–186, 197,
 203–206, 210–217, 235–240, 247–269,
 280, 291–292
 corporate finances and governance 20,
 239–240, 253–257
 education and training 20, 251–253
 industrial relations 20, 246–249
 position in world capitalist system
 20–21, 112–115, 257–269
 relations between firms 20, 249–250
 relations between firms and employees
 20, 249
 politics 23, 69, 90, 93, 123, 125, 134, 145–
 146, 149, 152–153, 155–156, 162, 164,
 166–167, 187, 197, 208–209, 217–222,
 297–301, 303–305, 312, 318–319
- European Union 16, 24, 71, 114, 203–204,
212, 244–245, 265, 273, 300, 315,
317–318, 179
- Exit from communism 12–14, 31, 42–49,
66–94. *See also:* Mode of post-communist
economic transformation; Mode of post-
communist political transformation;
Orientation of post-communist transfor-
mation
 in culture 46–47, 66–76
 in economy 44, 77–88
 in politics 44, 88–94
- Finland 19, 213–214, 236–238, 254–255,
264–266, 272, 328
- Foreign direct investments (FDI) 19, 21,
112, 114, 117, 223, 237–238, 260–263,
278–279, 287
- France 111, 113, 264, 284, 328
- Georgia 45, 48, 52, 57, 83, 87–88, 93,
122–123, 129, 131, 138, 142, 145, 147,
152–153, 155, 158, 161, 167, 180,
183–187, 215, 296, 301

- Germany 33, 35, 67, 71, 77, 80, 91, 104, 113,
119, 202, 228, 248, 252, 254–255, 264,
272, 296, 307, 311, 328
- Great Britain 100, 102, 107, 238, 251,
254–257, 264, 284, 328
- Greece 90, 115, 204, 264
- Herrnhuter movement 19–20, 227–230, 232
- Hungary 22–23, 41–42, 45, 55, 58, 69–71,
80, 85, 87, 90–93, 113, 123–124, 126, 130,
142, 145–146, 152–153, 155–156, 164,
166, 169, 176–178, 183–187, 197, 210,
215, 217, 219, 221, 247, 249–250, 252,
254–255, 259, 262, 264, 273, 275, 278,
283, 296, 300–301, 304, 310, 312
- Imiautorgrad 58, 143, 155–156, 167–169,
183–187
- Imiautormin 58, 143, 155–156, 167, 169, 170,
183–187
- Imiautorpart 58, 143, 153, 156, 167–169, 170,
183–187
- Imiautorshock 58, 144, 155–156, 167–169,
183–187
- Imipactmin 58, 143, 152–153, 156–158,
162–163, 183–187
- Imipactpart 58, 143, 152–153, 164–166,
183–187
- Imirefgrad 58, 144, 156, 167, 172–173,
183–187
- Imirefmin 58, 144, 156, 167, 172–173,
183–187
- Imirevolmin 58, 144, 156, 167, 172–173,
183–187
- Imirevolpart 58, 144, 180, 180, 184–187
- Impeachment of Rolandas Paksas in Lithu-
ania 22–23, 159–160, 207, 296–333
- Industrial relations 20, 74, 102–103,
116–244, 246–250, 252, 280
- Innovation 13, 15–16, 22, 43, 73–75, 80–82,
97–99, 102, 105–108, 111–112, 116–118,
131–132, 144, 165, 168, 170, 245–246,
258, 264, 267, 280, 290–294
institutional 73, 74–75, 80–82, 165–168
technological 15–16, 22, 97–99, 105–109,
116–118, 131–132, 245–246, 258–259,
264, 280, 290–294
derived 108–109, 116–118, 258–259
genuine 108–109, 131–132, 245–246
incremental 22, 43, 105–108, 245,
290–291
radical 98–99, 105–108, 111, 246
- Inovautormin 58, 144, 155–156, 167–168,
170, 183–187
- Inovautorpart 58, 144, 155–156, 167–168,
170, 183–187
- Inovautorshock 58, 144, 155–156, 167–168,
183–187
- Inovpactmin 58, 143, 152–153, 156–158,
162–163, 183–187
- Inovpactpart 58, 143, 152–153, 164–165,
183–187, 197–198, 288–290
- Inovpactshock 58, 143, 152–153, 164–165,
183–187, 197–198, 288–290
- Inovrefgrad 58, 144, 177, 179, 183–187
- Inovrefmin 58, 144, 156, 167, 172–173,
183–187
- Inovrefpart 58, 144, 177, 179, 183–187
- Inovrefshock 58, 144, 177, 179, 183–187
- Inovrevolmin 58, 144, 180–187
- Inovrevolpart 58, 144, 180–187
- Inovrevolgrad 58, 143, 153, 164–165, 181,
183–187, 290
- Inovrevolshock 58, 144, 180–187, 290
- Ireland 172, 204, 238, 241, 264, 279
- Italy 230–232, 264
- Japan 67, 91, 102, 104–107, 131, 254–255,
257
- Kazakhstan 48, 52, 57, 76, 83, 87, 93,
122–123, 137, 142, 145, 147, 152–158,
167–168, 183–187, 215, 254–257, 284,
304
- Kurzeme 225, 232
- Kyrgyzstan 45, 57, 76, 87–88, 93, 114, 122–
123, 131, 138, 143, 145, 147, 152–158,
167–168, 183–187, 215, 304
- Kuwait 295
- Laos 13, 55
- Latgale 216, 225, 232

- Latvia 19–23, 34, 41, 45, 58, 69, 87, 90, 93, 123, 126, 130, 134, 143, 145–146, 149, 152–153, 155–156, 162, 164, 166–167, 177, 179, 183, 184–187, 191, 197, 202–205, 208–211, 213–239, 242, 244–245, 247–249, 254–259, 261–265, 269, 272, 274, 285–294, 297–300, 303–305, 312, 318–319, 321
- culture 20, 69, 145–146, 162, 203, 221, 224–225, 226–235, 238
- economy 21, 87, 126, 130, 143, 145–146, 152, 153, 155–156, 166, 177–179, 183–186, 204, 210–216, 235, 237, 242, 244–245, 247–249, 254–259, 261–265, 269
- corporate finances and governance 20, 253–257
- education and training 20, 251–253
- industrial relations 20, 246–249
- position in world capitalist system 21, 112–115, 257–269
- politics 19, 23, 69, 90, 93, 123, 134, 143, 145–146, 152–153, 155–156, 162, 166, 183, 187, 208–209, 217–223, 236, 239, 297–299, 303–305, 312, 318–319, 321
- Laws of post-communist transformation.
See Patterns of post-communist transformation
- Lithuania 11–12, 16, 18–25, 30, 41–42, 44–45, 47–49, 53, 58, 62, 68, 75, 78–79, 81, 87, 91–95, 111, 123, 126, 130, 134, 139–140, 143, 145–149, 152–160, 164–167, 169, 173, 177, 179, 183–187, 197–199, 201–203, 208–333, 335–336, 338
- as counterfactual Baltic Slovenia 22, 206, 269–273, 285–287, 338. *See also* Restpactgrad
- culture 20, 51, 67, 147, 202–203, 223–225, 230–234, 239–241, 281–283
- economy 19–21, 78–79, 87, 110–115, 126, 130, 143, 145–147, 152–153, 155–156, 160, 164–166, 173, 183–186, 197–198, 210–217, 236, 238–239, 247–269, 280, 282, 291–295
- corporate finances and governance 20, 217, 239–240, 253–257
- education and training 20, 251–253, 294
- industrial relations 20, 246–249
- position in world capitalist system 21–22, 112–115, 257–269, 293–295
- relations between firms 20, 249
- relations between firms and employees 20, 249–250
- politics 22–23, 91–93, 123, 143, 145–147, 152–153, 155–156, 259–160, 169, 187, 206–210, 217–222, 274–275, 283, 296–333
- quality of democracy 23, 164, 297, 319, 321, 324–333
- Lustration 23, 92, 147, 165, 179, 219, 223, 232, 282, 301
- Luxembourg 204, 235, 264
- Macedonia 55, 76, 215, 304
- Malta 264
- Mode of post-communist economic transformation 14, 22
- economic liberalization 77–80, 82, 84, 86–88, 127, 211, 239
- gradual incremental reforms 14, 21, 52, 58–58, 62, 77–88, 94, 144, 147–148, 154, 160–162, 164–166, 168, 172, 177–178, 181, 192, 198, 206, 212–213, 238–239, 243, 276, 278–279, 291, 336
- macroeconomic stabilization 77–78, 83–84, 211, 221
- minimal reforms 14, 52–53, 58, 83, 85, 87, 144, 162–163, 169–170, 172, 189, 239
- partial reforms 14, 52–53, 58, 77, 83–87, 127, 144, 158, 160–162, 165–166, 169–170, 178–181, 189, 194, 239, 281, 290
- privatization 16, 19, 21, 52, 77–85, 147, 162, 211–212, 217, 220–222, 235–237, 239–240, 245, 277–281, 283, 285, 287, 289, 312
- shock therapy 14, 19, 22, 52, 58–59, 62, 72, 74, 77–88, 94, 126, 130, 144, 146, 148, 154, 159–166, 168–171, 177, 179, 181, 189, 191, 197–198, 212, 214, 238–240, 243, 266, 288–290, 336
- Mode of post-communist political transformation 14–15
- conservative 14, 53, 88–94, 135, 144, 154, 169, 189
- political liberalization 90–91
- refolution (pacted democratisation) 14, 53, 58, 66, 90–92, 141, 144, 153. *See also* Elite pact

- reforms from above 14, 53, 58, 66, 88–94, 122, 144, 148, 154, 170, 172–173, 179–181, 189, 192, 198
- revolution from below 14, 66, 88–94, 144, 146–148, 154, 160–162, 165, 170, 172, 180, 189, 198, 219, 223, 238, 240, 283, 290–291
- Moldova 45, 48, 52, 57, 76, 83, 87, 93, 114, 122–123, 131, 143, 145, 147, 154, 177–180, 183–187, 194, 215, 304, 312
- Mongolia 45, 57, 76, 87, 89, 93, 143, 145, 147, 154, 160, 167, 177–180, 183–187, 194, 215, 304
- Montenegro 13–55
- Moscow Consensus 32, 72
- Netherlands 102, 264, 284
- New Zealand 102
- North Korea 44–45, 47–48, 52, 62, 64, 191
- Orientation of post-communist transformation 13–14, 49–50, 66–77
 - continuational 13–14, 50–51, 54, 58, 66–68, 70, 72, 76–78, 141, 144, 148, 154, 159–160, 163, 170–171, 178, 189, 234–235
 - innovative 21–22, 50–53, 66–77, 117, 148, 163, 165, 168, 172, 179, 181, 206, 277, 279–283, 285–291
 - mimetic (imitative, emulative) 13–14, 50–51, 54, 58, 60, 66–73, 76, 115, 136, 144, 146–148, 154, 159, 161, 163, 169, 172, 189, 192, 234, 276, 283
 - restorational (restitutive) 13–14, 22, 50–51, 54, 58, 66–72, 76, 93, 115, 144, 146–147, 154, 159, 162–163, 168, 172, 178–179, 191, 197, 234, 238, 276, 283, 287, 289–290, 297
- Pathways of post-communist transformation 17, 24, 29, 53–60, 71, 140–198, 269, 238
- Patterns of post-communist transformation 12–13, 16–18, 29–30, 65, 133–139, 140–198, 201, 238, 337
- Pensions 266–269, 281, 285
- Planned administrative economic system 12, 29, 32, 35, 37, 42, 45–47, 49, 52, 75, 78, 83, 88, 108, 163, 168, 214, 244, 252, 286
- Political oligarchic capitalism (POC). *See* Capitalism, political oligarchic
- Poland 11, 22, 23, 34, 41–42, 44–45, 54–55, 58, 69–70, 75, 78–80, 87, 91–93, 113, 123, 126, 130, 143, 145–146, 151–153, 155–156, 159–160, 164, 166–167, 169, 183–187, 197–198, 202, 207, 210, 212, 215, 217, 219, 221, 239, 247, 250, 252, 254–255, 257, 259, 260, 301–305, 310, 312, 318–319, 328–329
- Populism 22–23, 71, 134–135, 159, 164–165, 180, 198, 209, 220, 222, 285, 297–305, 309–311, 319–320, 323, 326–329
- Portugal 115, 264
- Post-communist transformation. *See*: Mode of post-communist economic transformation; Mode of post-communist political transformation; Orientation of post-communist transformation; Pathways of post-communist transformation; Patterns of post-communist transformation
- Poverty 76, 104, 270–272, 287, 290
- Privatization. *See* Mode of economic transformation, privatization
- Protestantism 19–20, 218, 225–228, 232, 235, 240–241, 272, 289
- Qualitative comparative analysis (QCA)
 - 12–13, 17, 29, 60–62, 140–151, 188–196, 201–202, 336–337
 - crisp set 61
 - fuzzy set 17, 61
 - multi-value 12, 29, 17–18, 61, 140–141, 148–151, 175–176, 336–337
- Rational entrepreneurial capitalism. *See* Capitalism, rational entrepreneurial
- Relations between firms 20, 102–104, 116–117, 248
- Relations between firms and employees 20, 102–104, 116–117, 246–250, 253
- Rent-seeking 43, 84–85, 97, 121
- Restaurtorpart 57, 143, 155–156, 167–170, 183–187
- Restaurtorgrad 57, 143, 155–156, 167–169, 183–187
- Restaurtorshock 57, 143, 155–156, 167–169, 183–187
- Restpactgrad 58, 143, 152–153, 164–166, 183–187, 197, 287

- Restpactmin 58, 143, 152–153, 156–158, 162–163, 183–187
- Restpactpart 58, 143, 152–153, 164–166, 183–187
- Restrefgrad 57, 144, 176–178, 182–187
- Restrefmin 57, 144, 156, 167, 172, 183–187
- Restrefpart 57, 144, 177–179, 183–187
- Restrefshock 57, 144, 177, 179, 183–187
- Restrevolgrad 58, 143, 152–153, 164, 183–187
- Restrevolmin 57, 143, 152, 156–158, 162–163, 183–187
- Restrevolpart 58, 143, 152, 163–166, 183–187
- Romania 41, 45, 58, 52, 57, 72, 76, 83, 87, 90–93, 113–114, 117, 120, 122–123, 126, 130, 143, 145, 147, 154, 177–190, 183–187, 194, 204, 210, 215, 221, 244, 254–255, 257, 262–264, 283
- Russia 22, 31–32, 34, 36–37, 44–45, 48, 52, 54, 58, 69–72, 78–79, 80–81, 83, 86–87, 89, 94, 98, 111, 114, 120–122, 124–131, 134, 138, 143, 145, 147–148, 155–156, 164, 167, 171–173, 176–177, 179, 183–188, 193–194, 202–204, 209–210, 213–216, 218, 220, 227–230, 232, 234–235, 249, 254–258, 261, 272–273, 276, 279, 287, 293, 296, 304, 306, 310–314, 316–318, 320–322, 324, 329
metropolitan and provincial 54, 71–72, 171–172, 179, 194
- Scripts of post-communist transformation.
See: Counterfactual assumptions; Patterns of post-communist transformation
- Serbia 41, 45, 57, 69, 71, 83, 87, 88, 93–94, 120, 122–123, 129, 131, 138, 143, 145, 147–148, 152–156, 162–163, 167, 172, 183–187, 284
- Serbia-Montenegro 123
- Slovakia 41, 45, 58, 71, 79, 85, 87, 93, 94, 113, 122, 123, 126, 130, 143, 145–147, 152–153, 155–156, 161, 167, 169, 172, 176–178, 180, 183–187, 204, 210, 215, 219, 249, 250, 252, 262, 264, 274, 287, 304, 323
- Slovenia 15, 17, 20–22, 41, 45, 50–51, 58, 61, 75, 80, 85, 87, 93, 110, 113–114, 118, 123, 126, 130, 132, 143, 145–146, 152–153, 155–156, 164–166, 177–187, 205–206, 215, 219, 241–295, 300, 304, 338
as counterfactual Adriatic Estonia 21–22, 181, 290–291 *See also:* Inovrevolgrad; Inovrevolshock
as counterfactual Adriatic Lithuania 22, 165, 288–289, 338. *See also:* Inovpactshock
culture 50–51, 241, 272, 282–284, 289
economy 15, 20, 58, 75, 80, 85, 87, 110–111, 113–114, 118, 126, 130, 132, 143, 145–146, 152–153, 155–156, 164–166, 177, 183–186, 206, 210, 243–256, 265, 277–280, 285–287, 291–292
corporate finances and governance 20, 277–280
education and training 20, 252–253
industrial relations 20, 246–247, 253
position in world capitalist system 15, 113–114, 118, 244–246, 291–292
relations between firms 20, 250–251
relations between firms and employees 20, 249–251
politics 58, 75, 93, 123, 143, 145, 146, 152–153, 155–156, 187, 219, 275–276, 281, 300, 304
- Solidarność* (trade union) 75, 79, 91–92
- South Africa 91
- South Korea 91, 102, 131, 324
- South Ossetia 296
- Soviet Union. *See* USSR
- Spain 89, 115, 254–255, 264
- State capitalism. *See* Capitalism, state
- State capture 97, 122–123, 125, 320
- Sweden 53, 102, 104, 119, 172, 238, 254–255, 257, 264–265, 272
- Switzerland 204, 235, 281
- Tajikistan 57, 76, 83, 87, 93, 114, 123, 131, 143, 145, 147, 152–156, 161, 167, 183–187, 304
- Technological frontier 15–16, 20–22, 97, 105–108, 111–112, 116, 131–132, 136, 242, 245–246, 258, 260, 290

- Total factor productivity 97, 99, 258–259
- Transition. *See*: Mode of post-communist economic transformation; Mode of post-communist political transformation; Orientation of post-communist transformation; Pathways of post-communist transformation; Patterns of post-communist transformation
- Transnistria 163
- Trotskyites 32, 45
- Turkey 115, 254–255, 257
- Turkmenistan 45, 47, 53, 57, 76, 82–83, 87, 114, 123, 126, 130, 137, 143, 145, 147, 152–156, 167, 183–187, 215, 304
- Ukraine 45, 52, 57, 76, 83, 87–88, 93–94, 122–124, 128–129, 131, 134, 138, 143, 145, 147, 151, 154, 167, 178–180, 183–187, 194, 210, 215, 249, 255, 257, 296, 304
- Unemployment 21, 42, 76, 80, 103–104, 214, 249, 253, 265, 271, 300, 302
- United Kingdom. *See* Great Britain
- United States of America (U.S.) 11, 34, 79, 93, 102, 119, 255–257, 271–272, 320, 324
- Uruguay 91, 323
- USSR 12, 13, 34–38, 41–43, 54–55, 76, 87, 89, 93, 115, 123, 126, 130–132, 135, 160, 169, 203, 211, 214, 217, 223–234, 251–252, 274, 282–286, 288, 293, 295
- Uzbekistan 45, 47–48, 52–53, 57, 76, 82, 87, 93, 114, 123–124, 126, 130, 137, 143, 145, 147, 152–156, 167, 183–187, 215, 304
- Vanek-Reinert effect 263
- Vidzeme 225, 227–228, 232
- Vietnam 12, 14, 34, 44–46, 49, 51, 53, 55, 58, 74–75, 80, 82, 85, 88, 93, 117, 124, 126, 143, 145, 147–148, 153, 155–156, 164, 167–168, 174, 177, 179, 183–184, 187, 206, 215, 244
- Visegrád countries 111–114, 116, 244, 247–248, 260–263. *See also*: Czech Republic; Hungary; Poland; Slovakia
- Washington Cconsensus 72–73, 211, 233
- Weberian-Schumpeterian capitalism. *See* Capitalism, rational entrepreneurial
- Welfare state 10, 104, 172, 222, 253, 261, 266–268, 272, 277
- Yugoslavia 22, 24, 34, 43, 54–55, 69, 73, 80–81, 87–88, 93, 163, 252, 273–274, 276, 282–286, 288–296, 304

